HOIVATILAT

ANNUAL REPORT 2017

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Suomen Hoivatilat in brief

Hoivatilat is a service company that specialises in developing, leasing out and owning care and education premises. Our operating model is unique. For municipalities, we are a comprehensive service provider. For businesses, we are a partner who assumes the responsibility for the entire property project from acquiring the plot to maintaining the premises. The user of the premises acquires completely ready-to-use premises that suit their needs and wishes in the form of a turnkey solution, while Hoivatilat remains the active owner of the premises. We have cooperated with around 50 Finnish municipalities and started over 120 real estate projects throughout Finland.

Service community residents share their everyday lives

Hoivatilat's service community brings together a kindergarten, a nursing home and other local services, all within a walking distance. The community is designed so that outdoor areas, versatile common facilities, and hybrid solutions encourage the residents of the community regardless of age, visitors, staff, and kindergarten children to meet and lead their everyday lives actively together.

Stimulating and safe nursing homes

We develop nursing homes for groups with various special needs as well as for the elderly. Depending on the available plot size and requirements for the premises, our nursing homes are typically designed for 15–60 residents. Our nursing homes are just like real homes. All specific needs and safety of the residents are taken into account in the layout, material selections and furnishing.

Functional environments that foster growth

We carry out kindergarten projects in collaboration with municipalities and companies providing early education services. Each kindergarten is unique. We dimension facilities according to service needs: we place the kindergarten building optimally on the plot and finish the facilities according to the tenant's requests, so that every kindergarten we build offers a unique environment for development.

Premises that support learning

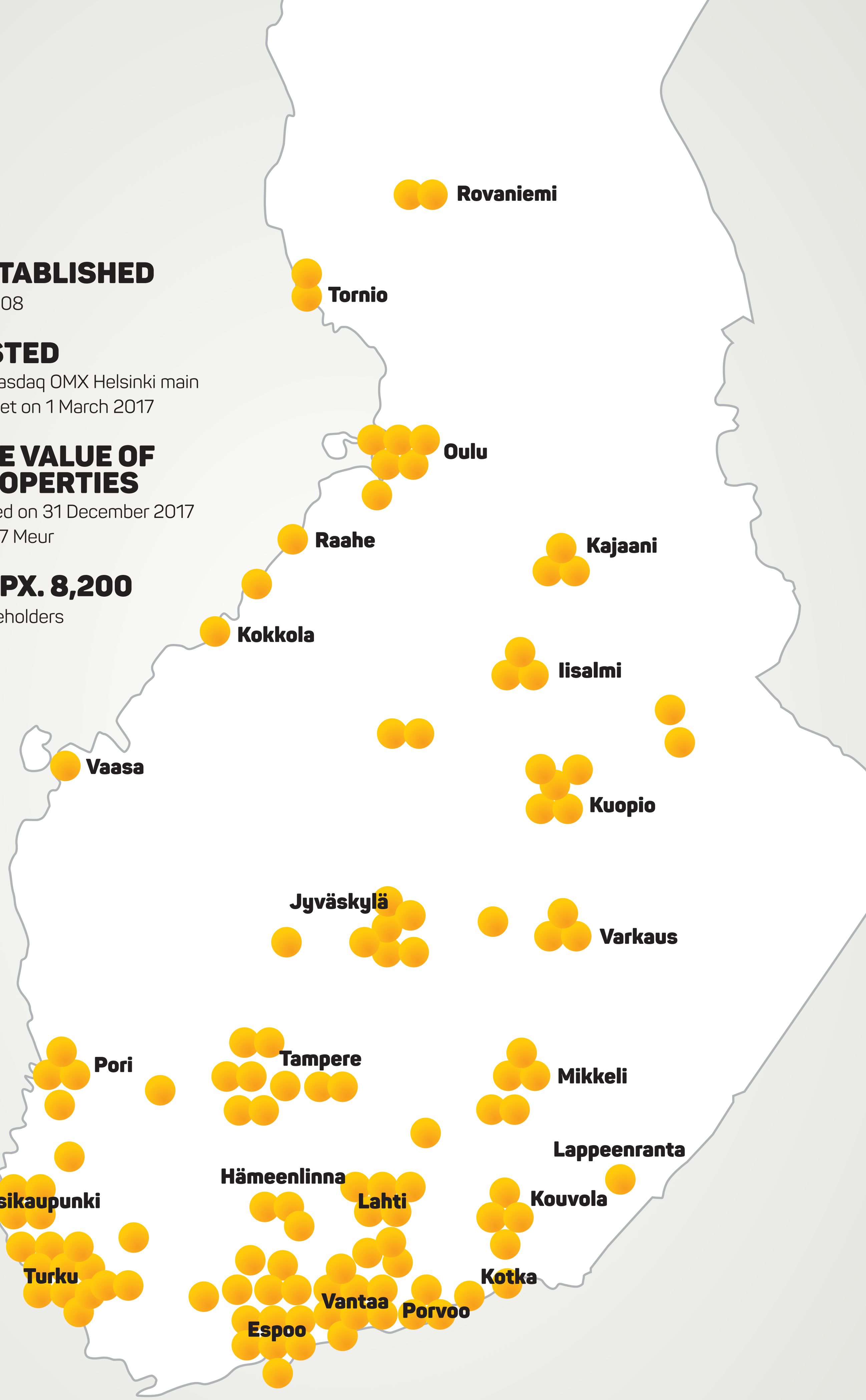
We have planned an investment free school concept which combines the latest pedagogical, architectural and technological expertise. The aim of the design process is that the building is a technically functional and healthy learning environment with an excellent indoor climate. The concept of Suomen Hoivatilat allows municipalities and towns to build modern facilities to meet the requirements of the new national curriculum without the need for the municipality to make any separate investments.

ESTABLISHED
in 2008

LISTED
on Nasdaq OMX Helsinki main market on 1 March 2017

THE VALUE OF PROPERTIES
owned on 31 December 2017 is 247 Meur

APPX. 8,200
shareholders



"Hoivatilat is a growth company. Our primary mission is to create a better society.

A YEAR OF STRONG GROWTH

Hoivatilat's business has an important social dimension. Our primary mission is to create a better society together with our partners. We want to provide our customers who occupy our service properties an environment that allows them to provide excellent service to their customers. By investing in the customer experience and digitalisation we provide a better service experience also to the end users of our premises: the children, the elderly, intellectually disabled and other groups with special needs as well as the staff working in the premises.

Growth and going public

Hoivatilat is a growth company. During 2017, all key indicators improved considerably: revenue grew by almost 70%, the value of investment properties increased by approximately 60% and operating profit by more than 70%. The return on equity – an indicator important to shareholders – was also excellent at almost 25%. During the year, we carried out 34 construction projects related to early education and care service facilities. The number of our employees increased, and our cooperation network was expanded further. We served our long-term partners and won new customers.

On 1 March 2017, Hoivatilat moved from the First North market to the Nasdaq Helsinki main market. At the end of March, the Company carried out a shares issue directed at institutional investors, collecting EUR 31.5 million of new capital before expenses. The issue introduced new investors into the Company's owner base not only from Finland, but also from Sweden, Norway and the UK. Moving to the main market has increased the Company's recognition and visibility and also increased the share turnover. The number of shareholders has also increased considerably. The number of the Company's shareholders more than doubled during the past year and was approximately 8,200 on 31 December 2017.

Entering the school market

For many years now, Hoivatilat has been a strong player in kindergarten, nursing home and service community projects. We have completed or started approximately 80 kindergarten projects and approximately 50 nursing home projects for different target groups in more than 50 municipalities. As a new opening, we launched the "Investment-free school" concept in September 2017. The new curriculum will speed up the renewal of learning environments. Studying will increasingly focus on learning by doing, problem-solving and the students' own deliverables. Our school concept provides a solution to this need for change.

Aged properties with their inherent problems also call for speeding up the process of replacing old facilities. In addition to technically flexible facility solutions, the models of ownership and real estate management are also undergoing a transformation. The facilities can be rented and the responsibility for their lifecycle can be borne by a private operator so that rather than building walls, the municipality can concentrate on its core mission: providing excellent services. Hoivatilat is actively participating in this transformation process.

New financial goals

In December 2017, the Board of Directors of Hoivatilat published the financial goals for the strategic period 2018–2020. These goals indicate that Hoivatilat's strong growth will continue in the future as well. The key goals can be summarised as follows:

- Revenue growth of at least 40 per cent in 2018 and at least 30 per cent in 2019–2020
- Average operating profit at 40 per cent of revenue
- Average equity ratio at least 35 per cent

According to Hoivatilat's dividend distribution policy, the goal is to distribute at least 50 per cent of the operating profit as dividends every year.

We want Hoivatilat to be an attractive target of ownership and investment for its owners, both in financial terms and in terms of content. We create value for society, our customers and our owners.

I want to thank our flexible and committed staff and the Board of Directors, our customers, and our extensive network of partners and owners for the past year. Together we are building a better society.

Jussi Karjula
Chief Executive Officer
@KarjulaJussi

Significant GROWTH STEPS

During 2017, Hoivatilat moved from the First North Finland market to the Nasdaq Helsinki main market, gained a significant increase in its key indicators and proceeded to new business sectors.

One of the important steps in early 2017 for Hoivatilat was moving to the Nasdaq Helsinki main market. After being listed in First North for 11 months, the Company listed in Nasdaq Helsinki – faster than any other company in Finland before. The financial statement of 2016 was drawn up according to the IFRS standard, the Company prospectus was updated, and the Company's internal processes were reviewed before moving to the main market. This process also included a shares issue targeted at institutional investors, collecting EUR 31.5 million of new capital.

Judging by all key indicators, 2017 was a year of strong growth for the Company. When looking at the number of completed properties and sales, Hoivatilat broke all the earlier records. Revenue, the value of the investment properties, as well as the EBIT and the operating result increased significantly.

Operating environment – focus on aging and the health and social services reform

Urbanization is increasing and the population is aging in both Europe and Finland. During the last two decades, the population of the Helsinki-Uusimaa region has increased by almost 500,000 people. Approximately 70 per cent of our population is already living in and around the 14 largest cities. The Finnish population is the fastest-ageing population in Europe. The number of people aged over 75 will double during the next two decades.

In 2017, the health and social services reform was one of the most debated themes in society. Its central goal is to ensure good services to everyone in the aging and urbanizing Finland. In addition, the reform is expected to bring cost savings of approximately three billion euros in the future. During the combined regional reform and health and social services reform, new regions will be established, the structure, services and funding of social welfare and healthcare services will be reformed, and new tasks will be assigned to the regions. The reform is intended to take effect on 1 January 2020.

The Freedom of Choice Act is an essential part of the health and social services reform. The purpose of the Act is to allow the social welfare and healthcare customers to choose their service provider and to improve the availability and quality of the services. It is assumed that freedom of choice will increase the number of available options and the importance of private services. The reform can have a significant impact on the growth of Hoivatilat's customer companies and also on Hoivatilat.

Even properties age

There are significant numbers of properties in Finland that are reaching the end of their life cycle. Moisture and mould damage and other indoor air issues have been a subject of public discussion lately. According to the Rakennetun omaisuuden tila ROTI 2017 ("The state of built infrastructure 2017") report, as many as fifth of public service buildings suffer from significant damage. As many as 500,000 children, senior citizens and adults of working age live or work in these buildings every day. Hoivatilat has paid special attention on making their premises safe and minimising indoor air issues. The Company has its own Terve Rakennus (Healthy building) concept, applied to all property projects. Digitalisation and IoT enable new methods of monitoring indoor air quality and the structures of a property. In these areas Hoivatilat is a pioneer in the field. The Company has also started its first property projects where log is used as the building material.

Strategic partnership and focusing

Hoivatilat's business is based on close customer relationships and understanding the customers' business. We provide solutions for growth for private care and day care companies and municipalities. Hoivatilat's fast and direct operating model helps growth-seeking partners meet their targets. In 2017, Hoivatilat carried out 34 property projects. Hoivatilat has approximately 30 tenants. 55 per cent of the value of the agreement portfolio comes from the three largest customers.

In the beginning of 2018, there were 311 municipalities in Finland. Nine of them are cities with a population of over 100,000 people. Hoivatilat focuses in the area of the largest growth centres with significant service and investment needs in both the culture and education sector and the social welfare and health care sector. We are familiar with the municipalities' needs and offer a competitive way

of building modern high-quality service properties without any investment from the municipality.

Focus on operational efficiency

Hoivatilat's business model emphasises the active role of the Company in forming relationships with municipalities and land acquisition. To bring added value to our customers, we must know the growth prospects and areas of the municipalities that are central to our operations. Oftentimes, a Hoivatilat project starts by acquiring a plot and linking it to a private service operator. Own sales, project development and construction are Hoivatilat's central fields of expertise. The Company has its own, efficient organisation, but also relies on an extensive partner network for development, monitoring and construction. Hoivatilat offers long-term lease agreements (typically 15–20 years), constructs extensively equipped special premises and remains as the long-term owner of the properties. The Company uses digital technology in managing its network of over 100 properties. The property management has an overview of all properties and can monitor them with selected metrics.

Financial Indicators

Hoivatilat is growing rapidly as a company. Operating profit can be divided into two categories: The first category is the income from the renting business, which comprise the Company's revenue and operating result. The second category is the income from the changes in the fair value of investment properties, which in turn consist of two areas. First, Hoivatilat has its own property development operations where the Company's own organisation is involved in hands-on project development, creating additional value for the income statement and balance sheet. Second, there are property valuations carried out according to the IFRS accounting standards. These valuations are based primarily on the required yield on the market. In recent years, the required yield has decreased, which has increased the value of investment properties. In 2017, the required market yield estimated by a third party auditor decreased from 6.9 percentage points to 6.5.

Hoivatilat's operational efficiency, which is important for shareholders, is good in comparison with other companies in the real estate sector. The Company's operating result was EUR 5.4 million, and the revenue was EUR 12.4 million. According to Hoivatilat's dividend distribution policy, the goal is to distribute at least 50 per cent of the operating profit as dividends every year.

The Company has an exceptionally long-term view of its future cash flow. The value of the Company's agreement portfolio was EUR 316 million, which means the agreed lease revenue of the following years. The average lease period is 14.4 years. The occupancy rate of the properties has been 100 per cent throughout the Company's history. The ROE rate in 2017 was 25%.

Business operations and strategy

Hoivatilat aims to provide solutions for growth for its customers, while operating as a reliable long-term property owner and lessor. We want to create a better society together with our partners.

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The provision of service properties requires functional premises. Producing special-purpose properties requires expertise and capital. This is a combination that Hoivatilat is able to offer to growing businesses in the care and day care sector as well as to municipalities. Leadership in the creation of new concepts and the promotion of environmentally sound solutions are important elements of the Hoivatilat operating model.

Hoivatilat is a growth company
Hoivatilat's key goal is to significantly increase the Company's property portfolio during the coming years. The growth pursued by the Company must be controlled and profitable. This means that the property projects to be carried out must satisfy certain financial and qualitative criteria.

The Company's strategic cornerstones
Customers are a strategic focus for Hoivatilat. We want to create a superior customer experience by providing solutions for growth for our customers. We build each property and take care of the entire project from acquiring the plot to maintaining the special property with the customer's needs in mind. One of Hoivatilat's strategic intents is building properties in growth centres. Population growth in the largest cities and municipalities requires properties not only for (early) education and training, but also for the elderly and other groups with special needs.

We offer comprehensive solutions for our customers. We provide premises that are always ready for use, rent them and remain as the active owners of the premises. The experience and expertise gained from over 120 projects make our operations effective. Innovation and proactivity are an integral part of our operations.

Hoivatilat's own organisation is lean and efficient. Our extensive and capable partner network helps us to carry out large and demanding property projects and build properties quickly and flexibly according to our customers' wishes.

Hoivatilat makes lease agreements for the properties to be built before the construction work begins. Thanks to the long-term lease agreements, the occupancy rate of completed properties is 100%.

VISION

Hoivatilat creates a superior customer experience by providing solutions for growth for our customers.

Values

We help our customers

We create value

We are fast and straightforward

We are bold

Key trends

Hoivatilat operates in the care property market, which has seen rapid growth in Finland in recent years. Private sector service provision has increased in day care as well as other care segments as a result of trends such as the privatisation of public service provision and the growing popularity of service vouchers. The customer base of Hoivatilat mainly consists of day care and care service providers, whose business operations are characterised by a reluctance to commit capital in property investments. Due to often significant moisture and mould damage in schools and kindergartens located in older buildings, there is a need to renovate old buildings and build new properties.

1 The trend towards geographical concentration

According to statistics by the World Bank, the urban population of Finland accounted for approximately 84 per cent of the total population in 2015. The five largest sub-regions (Greater Helsinki, Tampere, Turku, Oulu, Jyväskylä) are currently home to about half of all day care-aged children. The country's growth centres will continue to be the places where population grows and the majority of new citizens are born. The geographical concentration of the population, along with urbanisation, creates strong demand and needs for kindergartens, nursing homes and schools particularly in growth centres.

2 Ageing population

According to Statistics Finland and Eurostat, the Finnish population is among the fastest-ageing populations in Europe, and the proportion of the over-75s is expected to increase significantly by 2030. Hoivatilat estimates that in order for municipalities to meet their statutory obligations, the total capacity of assisted living facilities must be increased by between 20,000 and 30,000 beds. In practice, this would mean 1,000 new nursing homes and property investments amounting to EUR 2–3 billion to satisfy the need for 24/7 assisted living facilities alone.

3 Increasing public debt

The financial position of the public sector has weakened over the last years. The ageing of the population presents a permanent additional challenge to the balancing of public finances, and leads to growth in pension, healthcare and long-term care expenses. The cash flow of the municipal sector's operations and investments was negative in 2010–2015, which lead to increasing debts in municipalities. The total debt of the Finnish municipal sector has more than doubled over the past decade.

4 Increasing popularity of service vouchers and personal service budgets

Genuine freedom of choice and the use of service vouchers has increased steadily in social welfare and health services and day care. Freedom of choice will increase in all care segments. The current share of the private sector in day-care services is just 15%.

Business model

HOIVATILAT IS A SERVICE COMPANY,

that specialises in producing, developing, owning and leasing out nursing homes, kindergartens, schools and service communities.

HOIVATILAT IS DIFFERENT.

It is not a construction firm or a real estate fund; it is a comprehensive partner for municipalities and service providers and also an active property owner. The Hoivatilat model provides the user of the premises a turnkey solution based on a single agreement and with the efficiency brought by experience.

IN ADDITION TO PROVIDING PREMISES,

Hoivatilat takes responsibility for all construction-related contract and permit processes. Hoivatilat leases or buys the plot of land, designs and builds the premises, and remains as an active owner of completed properties.

HOIVATILAT HAS BOTH EXPERIENCE

and a history of efficient solutions that can be leveraged in everything we do. Hoivatilat pays particular attention to the flexibility and adaptability of premises to ensure that they can be easily used for a variety of purposes.

EXPERIENCE PROVIDES THE FOUNDATION FOR OUR SWIFTNESS.

Hoivatilat understands the special requirements for care premises. Hoivatilat works in close partnership with an expert network that has strong expertise in the design and construction of care facilities and high-quality operations. Every project is planned in accordance with the customer's wishes and the intended use of the premises.

Personnel

All the personnel involved in realising a vision of growth

Hoivatilat is a growth company that has a lean and efficient organisation. The Company's own organisation consists of people who take care of Hoivatilat's critical key tasks, such as sales, construction contracting and administration. With the help of an extensive and competent partner network, Hoivatilat can carry out a large number of new property projects each year, as well as manage the current property portfolio.

Personnel in 2017

At the end of 2017, Hoivatilat had a CEO and 14 employees. Ten employees worked at the Oulu office and five at the Espoo office. Three new employees were recruited during the year. The recruitments helped to strengthen the Company's competence base in financial administration and the management and technical maintenance of existing properties. The Company's head office is in Oulu, and its other office is in Espoo.

Investments in employee satisfaction and development

In March 2017, the Company carried out an employee satisfaction survey. The results of the survey were discussed together and the most important development areas were selected on the basis of the discussion. Hoivatilat's employees enjoy their work. They also feel that their work has a purpose and are very proud of the results. It was decided that the most important step for improving job satisfaction is to increase the time dedicated for job orientation and studying new things. The Company also decided to invest in better remote conference tools to make cooperation easier between our two offices. In the future, employee satisfaction will be measured annually to monitor its development. In 2017, we adopted a new coaching discussion model, where discussions are held four times a year, and more attention is paid on motivation, development and coping.

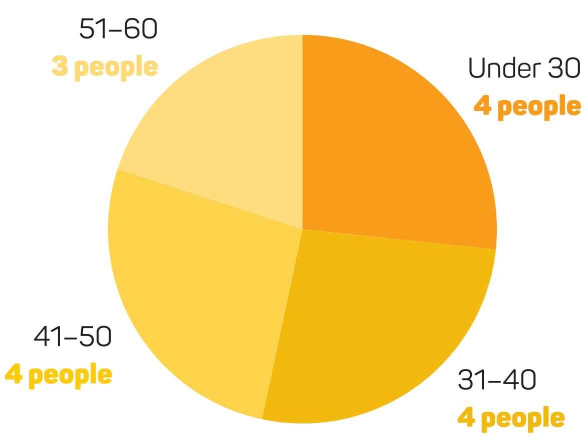
More support for physical exercise

Hoivatilat wants to encourage its employees to have a healthy, physically active lifestyle. Similarly to previous years, physical activity was supported by providing recreational vouchers for employees. In August, we launched Hoivatilat's first sports challenge to the entire personnel. The goal of the challenge was to get 500 points by being physically active. Each employee who reached the goal received a bonus of 500 euros. The qualifying sports for collecting points were announced in advance. In practice, three hours of exercise per week was needed to complete the challenge. We are satisfied with the results of the sports challenge. 46 per cent of our employees reached their goals and many others were very close to reaching 500 points.

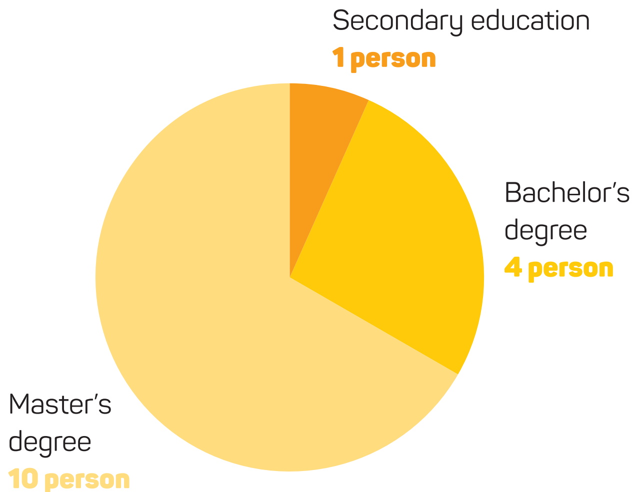
Our CEO received the Future CEO of the Year 2017 award

CEO Jussi Karjula was chosen as Future CEO of the Year on the basis of the votes he received as well as the evaluation made by the jury. The selection was done from a total of 266 CEOs. According to the jury, he manages the Company consistently in accordance with its clear strategic direction. As an inspiring and determined leader, he is able to get both his staff and his company's network to head to the same direction and work together to achieve the common goal of creating a better society together with their partners for the benefit of citizens.

Personnel age distribution 2017



Personnel educational structure 2017



Retirement home in Siilinjärvi **built with Hoivatilat's PPP model**

Hoivatilat builds a retirement home in Siilinjärvi using its unique PPP model. Construction began in November 2017, and the building will be completed in December 2018. The lease period is 20 years.

The retirement home in Siilinjärvi includes a short-term care unit that provides respite care, rehabilitative short-term care and acute short-term care for the elderly. The retirement home is constructed according to Hoivatilat's PPP model. It means that the municipality will lease the premises from Hoivatilat, while Hoivatilat will be responsible for utility and maintenance costs according to an agreed level. Utility costs include heating, electricity and water. In addition, Hoivatilat is responsible for the rent of the plot, property tax and insurance, technical building management, management of the outdoor areas, and waste management. Therefore, the user is only responsible for paying the rent and cleaning the interiors.

When a property project is carried out with Hoivatilat's PPP model, the municipality does not have to commit capital to the project. For the municipality, the model means easiness of operation and predictable costs. Furthermore, Hoivatilat's extensive experience in carrying out real estate projects is reflected in the rapid execution of projects, enabling Hoivatilat to meet even urgent needs. According to Hoivatilat's model, a single agreement is all that is needed for the municipality to start using the facilities. In Siilinjärvi's case, Hoivatilat will also demolish an old, decommissioned nursing home that is located on the plot.

Siilinjärvi, retirement home

Facilities
Residential care for 30 persons
+ adult day care facilities for 15–20 customers

Completed
In December 2018

Floor space
Appr. 2,300 m²

A service community **for the needs of a growing city**

The growing city of Uusikaupunki needed new services. In just two years, a service community was built in the Santtio neighbourhood by the sea. It includes a day-care centre, a grocery store and a residential home for people with intellectual disabilities, all in the same courtyard area.

Hoivatilat leveraged its network to find partners who meet the city's needs. The city, for its part, made it possible to build the service community in the area. The community is located in one of the city's developing neighbourhoods. The Santtio neighbourhood had already been planned, but the city changed the plan on a fast schedule to allow building the service community.

The population density in the area was already high, and after the plan was altered, the population is likely to increase even more. The new service community and its grocery store and day-care centre complement the area's other services perfectly. Because the residential home, the store and the day-care centre are all located in the same courtyard, people have more opportunities for spontaneous encounters in their everyday lives. The service community also allows new social networks to be created and increases the sense of community in the area.

"Service communities are always assembled according to the customers' and the neighbourhood's service needs. When setting up a service community, the only limit is imagination and the need for local services", says Antti Kurkela, sales director at Hoivatilat.

Uusikaupunki, service community

Facilities
A grocery store, childcare for 75 children and residential care for 15 persons with intellectual disabilities

Partners
Attendo, Kesko and Touhula Päiväkodit

Completed
In autumn 2017

Sustainability

We at Hoivatilat summarise the reason for our existence as follows: We are creating a better society together with our partners. Our defined vision – what we want to achieve in the future – is the following: Hoivatilat creates a superior customer experience by providing solutions for growth for our customers.

Profitable business operations are an integral part of corporate responsibility

The key goal of Hoivatilat's operations is to significantly increase the Company's property portfolio during the coming years. The growth pursued by the Company must be controlled and profitable. The Company experienced strong growth in 2017. Total revenue increased by 66.9% and profit for the financial year increased by 73.5%. During 2017, the property portfolio grew by 59.7%.

We take good care of our personnel

The well-being and development of our personnel are important for our business. We want to provide meaningful and relevant work with great colleagues for our current and future employees alike. In 2017, we replaced development discussions with coaching discussions. In the new model, discussions are held more often, four times a year. The purpose of the discussions is to keep the employees' goals and roles clear and help and support them in succeeding in their jobs. We also pay attention to sustained motivation, each employee's training needs and resources, as well as general well-being both at work and at home.

Environmental responsibility with partners

Hoivatilat's most important focus areas of environmental responsibility include the reduction of the energy consumed and the use of ecological heating systems in the properties whenever possible. We work continuously with our partner network to improve energy efficiency. In addition, we utilise the various means enabled by digitalisation to lengthen the life span of real estate properties and to ensure responsible ownership. Almost all properties constructed by Hoivatilat are built from timber. Choosing timber in construction helps to control climate change. Timber is a renewable construction material. During their life cycle, wooden houses cause significantly less climate and environmental damage than similar houses built from concrete, steel, or bricks.

Corporate Governance Statement 2017

Corporate Governance Statement 2017

1. INTRODUCTION

The corporate governance system of Suomen Hoivatilat Oyj ("Hoivatilat" or "the Company") is based on the valid legislation and the Company's articles of association. The Company complies with the rules of Nasdaq Helsinki Ltd ("Nasdaq") and the Finnish Corporate Governance Code 2015 recommendation by the Securities Market Association ("the Corporate Governance Code"). The Company adheres to the Corporate Governance Code in its entirety. The Corporate Governance Code is publicly available on the website of the Securities Market Association at **www.cgfinland.fi**.

2. DESCRIPTIONS RELATING TO GOVERNANCE

In accordance with the Finnish Limited Liability Companies Act (624/2006), governance of the Company is divided between the general meeting, the Board of Directors and the Chief Executive Officer. The shareholders exercise their rights mainly in the general meeting, which is normally convened by the Company's Board of Directors. In addition, a general meeting must be held if the Company's auditor or shareholders, whose shares represent at least one-tenth of all issued shares of the Company, demand in writing that a general meeting be held.

2.1. General meeting

The general meeting is the highest decision-making body of Hoivatilat. In accordance with the Limited Liability Companies Act, shareholders will exercise their power of decision at the general meeting. The annual general meeting decides on the matters required by the aforementioned Act and the articles of association. The Company's owners participate in the annual general meeting either personally or through a representative. Each share confers one vote in the annual general meeting.

The ordinary general meeting will be held annually on a date set by the Board of Directors, within six (6) months of the end of the financial year. In accordance with the Limited Liability Companies Act and the articles of association, the annual general meeting must resolve matters belonging to it, such as the approval of the financial statements and consolidated financial statements, the use of profit indicated by the balance sheet, the election of Board members and auditors and their remuneration as well as the number of Board members. The ordinary general meeting will also resolve to discharge the Board members and the CEO from liability. In addition, an extraordinary general meeting must be held when the Board deems it necessary, or when the Company's auditor or shareholders whose shares represent at least one tenth (1/10) of all shares issued by the Company request it in writing for the consideration of a specified matter.

According to the Company's articles of association, the notice of the general meeting will be delivered to the shareholders by publishing it on the Company website or in an otherwise verifiable manner no earlier than three (3) months and no later than three (3) weeks before the general meeting, but at least nine (9) days prior to the record date of the general meeting as referred to in the Limited Liability Companies Act.

2.2. Board of Directors

The Company's Board of Directors is responsible for the management of the Company and the appropriate organisation of its activities. The Board of Directors is responsible for ensuring that the supervision of the Company's accounting and financial management has been appropriately organised. The Board of Directors and individual Board members must not comply with any decisions made by the general meeting or the Board of Directors that are invalid due to being contrary to the Limited Liability Companies Act or the Company's articles of association. The general meeting elects the members of the Board of Directors.

The Board of Directors is elected annually at the annual general meeting. Shareholders' Nomination Board (see section 2.4) annually prepares proposals for the annual general meeting concerning the election and remuneration of the Board members. In accordance with the Company's articles of association, the Company has a Board of Directors consisting of 3–7 ordinary members. The term of office of the Board members ends at the conclusion of the annual general meeting following their election. The Chair of the Board of Directors, the Chief Executive Officer and any individuals authorised by the Board of Directors to represent the Company will have the right to represent the Company. The Board of Directors will decide on the granting of the right of representation and the right to sign on behalf of the Company.

2.2.1. The composition and activities of the Board of Directors

The Board of Directors has prepared written rules of procedure for its operations, which include a specification of the Board's tasks and responsibilities.

Among the actions that can be taken by the Board in accordance with the rules of procedure are supervision of the Company's executive management, appointment and dismissal of the CEO, approval of strategic goals and risk management principles for the Company and its business operations, and ensuring the operation of the management system. The Board of Directors also ensures that the principles for internal control of the Company have been specified, and that the effectiveness of these controls is monitored within the Company.

The Board's most important task is to guide the Company's strategy and operations in accordance with the expectations of key stakeholders, so as to produce the greatest possible added value over the long term for the capital that has been invested in the Company. It is the duty of the Board of Directors to promote the interests of the Company and all of its shareholders.

The Board is also responsible for approving the policies and guidelines for internal control, risk management and method of governance, as well as for approving the Company's disclosure policy. Based on the Company's strategy, the Board of Directors approves the action plan and budget and monitors their implementation. The Board of Directors also approves annually the investment priorities in the Company's business operations, and in conjunction with this, decides annually on large and strategically significant investments, acquisitions and divestments. The Board of Directors confirms the Group's corporate structure and the Company's ethical values and operating methods, and monitors their implementation. The Board also monitors the working atmosphere at the Company and the work performance of the staff. In addition, the Board determines the Company's dividend policy, and based on this, submits the dividend proposal to the annual general meeting for approval.

The proposal for the composition of the Board of Directors is prepared by the Shareholders' Nomination Board. In drafting this proposal, the Nomination Board takes into account the Corporate Governance Code's provisions on the independence and competence of the Board members and the Board's principles concerning the diversity of the Board.

A majority of the members of the Board of Directors must be independent of the Company, and at least two members of this majority must be independent of any such shareholders. The Board of Directors assesses the independence of its members in each case.

It is important for the effective functioning of the Board and for the performance of its tasks that the Board membership is diverse, so as to ensure a broad and mutually complementary range of experience and expertise. To be eligible for appointment to the Board of Directors, a candidate must have the qualifications required for the task, and must be able to devote the amount of time needed for carrying out the duties of membership. The performance of the Board and its individual members is assessed regularly every year. The results of these assessments will be taken into account when preparing the proposal for the composition of the new Board.

To ensure diverse support for and development of the Company's business operations, the composition of the Board of Directors must be sufficiently diverse. The Board must consist of both men and women. The membership of the Board of Directors, when assessed as a whole, must have a sufficiently broad range of qualifications, skills and experience. In preparing the proposal on the composition of the Board of Directors, consideration will be given to ensuring adequate diversity of the Board, such as gender equality and diversity of age as well as educational and professional background. To evaluate the diversity and composition of the Board, each candidate for membership of the Board must provide, in confidence and in accordance with the instructions given by the Company, the information that is necessary for evaluating the competence of the candidate and the amount of time the candidate can devote to the task of serving on the Board. This information is used for preparing the proposal for the composition of the Board of Directors.

For the period from 1 January 2017 until 23 February 2017, the Company Board members were Pertti Huuskonen, Kristiina Hautakangas, Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. Members of the Board of Directors elected in the ordinary general meeting held on 23 February 2017 are Pertti Huuskonen, Satu Ahlman, Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. The Chairman of the Board of Directors has been Pertti Huuskonen. For the financial year 2017, the Company's Board of Directors convened a total of 12 meetings. Three of these meetings were conducted by email or telephone. The attendance rate of the members of the Board of Directors was 100%.

Basic information on the Board members, their independence, remuneration, shareholdings and attendance at Board meetings is provided in the tables shown on page 24.

Board of Directors

The Board of Directors controls and monitors the Company's operational management, appoints and dismisses the CEO and approves the Company's important decisions.

Pertti Huuskonen

b. 1956, M.Sc.(Eng.), eMBA, marketing qualification

- Chairman of the Board since 2011
- Full-time occupation: Professional board member
- The Chairman of the Remuneration Committee and an expert member of the Nomination Committee
- Independent of the Company and its major shareholders

Pertti Huuskonen has been the Chair of the Board of Directors of Hoivatilat since 2011. Huuskonen has worked at Lunacon Oy since 2011 as an adviser and investor for high-growth enterprises in Finland and the Baltic countries, and as the company's CEO and Chair of the Board of Directors. Huuskonen has been the Chair of the Board of Directors of Lehto Group Oyj since 2014, prior to which he was a Board member in 2013–2014. Since 2017, Huuskonen has served as Deputy Chair of A. Ahlström Kiinteistöt Oy. Huuskonen has also served as a Board member in the Estonian residential and retail property development company AS Pro Kapital Grupp and in Kaleva Oy since 2012. Huuskonen was the Chair of the Board of Directors of Technopolis Oyj in 2008–2012, a member of the Board in 2012–2013 and the company's CEO in 1985–2008. Before joining Technopolis, Huuskonen was an entrepreneur and Managing Director at Vakote Oy in 1979–1985. Huuskonen has worked as an academic adviser and working life lecturer at Oulu Business School at the University of Oulu since 2011. He was the Honorary Consul of Sweden in Oulu Province in 1997–2013. Huuskonen's academic qualifications include a M.Sc. Degree in Engineering from the University of Oulu in 1983, a Marketing Degree from the Institute of Marketing in 1986 and an eMBA from the University of Oulu in 1991.

Mammu Kaario

b. 1963, LL.M., MBA

- Member of the Board since 2016
- Full-time occupation: Professional board member
- Member of the Audit Committee and the Remuneration Committee
- Independent of the Company and its major shareholders

Mammu Kaario has been a member of the Board of Directors of Hoivatilat since 2016. Kaario serves as a board professional in several companies. Among the companies in which she is currently a Board member are Robit Oyj, Capman Oyj, Aspo Oyj, Ponsse Oyj and Kastelli Group Oy. Kaario is also the Chair of the Board of two companies, Perusterveys Suomi Oy and SstatzZ Oy. Kaario was a member of the Board of Directors of Enfo Oyj in 2010–2016, a member of the Board of Directors of Invalidiliiton Asumispalvelut Oy in 2012–2015 and the Chair of the Board of Directors of the day care centre chain Pilke päiväkodit Oy in 2012–2016. Kaario was the CEO of the investment company Partnera Oy in 2016 and 2017, and before joining Partnera, was an Investment Director at Korona Invest Oy in 2011–2016. From 2005–2010, Kaario was a Partner at Unicus Oy and from 2006–2010 she was a member of the Board of Directors of Esperi Care Oy. Kaario has been a member of the Board of Directors of the Sibelius Academy Foundation since 2015. She is also a founding member of the Finnish Business Angels Network, and served on its Board of Directors from 2011–2012. In addition, Kaario worked as a Director and Partner at Conventum Corporate Finance Oy in 1998–2004 and an Assistant Director at Prospectus Oy in 1994–1998 and at Kansallis-Osake-Pankki in 1990–1994. She graduated from the University of Helsinki with a Bachelor's Degree in Law 1988, and in 1999 she received an MBA from the Georgia Institute of Technology in Atlanta.

Timo Pekkarinen

b. 1973, BE, licenced real estate agent

- Member of the Board since 2008
- Full-time occupation: CEO of Kastelli Group Oy
- Member of the Audit Committee
- Independent of Company's major shareholders

Timo Pekkarinen has been a member of the Board of Directors of Hoivatilat since 2008 and he also served as the Company's CEO from 2008–2010. Pekkarinen is a member of the Board of Directors of Rakennusliike Lapti Oy, Nuotek Oy and of Tirinom Oy. Pekkarinen has also served as the Chair of the Board of LapWall Oy. Pekkarinen's membership in the Board of Directors of LapWall Oy ended 11 January 2018. Pekkarinen has been CEO of Kastelli Group Oy since 1 September 2017, after having served as Vice President of Kastelli Group Oy since 1 March 2017. Pekkarinen was CEO of Rakennusliike Lapti Oy until 31 July 2017. Since 1 January 2018 Pekkarinen has served as CEO of Lapti Group Oy. Timo Pekkarinen studied construction engineering at Sheffield Hallam University from 1995 to 1996 and graduated from the Applied Technical University of Oulu with a construction engineer's degree in 1997. He is also a licensed real estate agent.

Reijo Tauriainen

b. 1956, MA

- Member of the Board since 2015
- Full-time occupation: Professional board member
- Chairman of the Audit Committee
- Independent of the Company and its major shareholders

Reijo Tauriainen has been a member of the Board of Directors of Hoivatilat since 2015. Tauriainen serves as a board professional in several companies. Tauriainen serves as the chair of the Board of Directors of MekaPro Oy, Osuuskunta PPO, and Arvo Invest Nordic Oy. He is a member of the Board of Directors of Nordic Option Oy, LapWall Oy, Propria Oy, Temotek Oy and Temotek Services Ltd. In addition, Tauriainen has been a member of the Board of Directors of Uros Oy until 13 February 2018. Tauriainen resigned from CFO position of Uros Oy 13 February 2018 and his contract of employment will end 13 April 2018. Tauriainen has extensive and diverse experience of senior roles in strategic and operational management, finance, financial management and human resources management in the property sector, the banking sector and the mobile phone ODM business. Tauriainen was CFO and deputy managing director of Technopolis Oyj until 31 July 2017. Prior to joining Technopolis, Tauriainen worked as CFO at Flextronics ODM Finland Oy in 2001–2004. Tauriainen was also in charge of property leasing, sales, development and maintenance at Kapiteeli Oy as the Regional Manager for the Oulu Regional Unit in 1999–2000, and was Property Manager at Arsenal Oy in 1994–1999. He was a Bank Manager at Suomen Säästöpankki – SSP Oy in 1992–1994 and at Oulun Aluesäästöpankki in 1990–1992. Tauriainen graduated from the University of Oulu with a Master's Degree in Economics in 1982.

Satu Ahlman

b. 1978, BA (Education)

- A member of the Board of Directors since 2017.
- Full-time occupation: CEO, entrepreneur in Ahlman & CO Development Oy
- Member of the Remuneration Committee
- Independent of the Company and its major shareholders

Satu Ahlman has been a member of the Board of Directors of Hoivatilat since 2017. Since 2012, Ahlman has worked as the founder shareholder and since 2015 as the CEO of Ahlman & CO Development Oy, which provides business development services to service providers in the social and healthcare field. Ahlman graduated from the University of Jyväskylä with a Bachelor's Degree in Education and a Degree in Early Childhood Education in 2002. In addition, she has undertaken studies at the University of Jyväskylä for a Master's Degree in Economics.

BOARD MEMBERS

Name	Position	Year of birth	Education	Independence from the Company	Independence from significant shareholders in the Company
Pertti Huuskonen	Chair of the Board of Directors	1956	M.Sc. (Eng.), eMBA, marketing degree	Yes	Yes
Satu Ahlman	Board member	1978	Degree in education (early childhood education)	Yes	Yes
Mammu Kaario	Board member	1963	LL.B., MBA	Yes	Yes
Timo Pekkarinen	Board member	1973	Construction engineer, licensed real estate agent	No [1]	Yes
Reijo Tauriainen	Board member	1956	M.Sc. (econ.)	Yes	Yes

1. Timo Pekkarinen is a shareholder of Rakennusliike Lapti Oy, which is a significant construction operations partner of the Company. He is also the managing director of Lapti Group Oy., which is the parent company of Rakennusliike Lapti Oy.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE BOARD OF DIRECTORS

	31 December 2017	31 December 2017
Name	**Quantity of shares**	**Percentage of stock**
Pertti Huuskonen	352,486	1.39%
Satu Ahlman	–	–
Mammu Kaario	–	–
Timo Pekkarinen	1,111,165	4.39%
Reijo Tauriainen	12,300	0.05%
Hallitus yhteensä	**1,475,951**	**5.84%**

BOARD MEMBERS' REMUNERATION, SERVICES SOLD TO THE COMPANY, AND PARTICIPATION IN BOARD MEETINGS

Name	Remuneration for the Board membership 2017, EUR	Sales of services to the Company 2017, EUR	Participation in Board meetings
Pertti Huuskonen	47,500	–	12/12
Satu Ahlman	22,400	–	9/9
Mammu Kaario	26,000	–	12/12
Timo Pekkarinen	21,300	–	12/12
Reijo Tauriainen	27,500	–	12/12
Kristiina Hautakangas	2,100	–	3/3

2.3. Board Committees

Board Committees are set up for improving the preparation process for matters that are the responsibility of the Board, by enabling matters to be handled in greater detail. To make their working more effective, the Board has established two permanent committees from among its members: an Audit Committee, and a Compensation Committee. The Committees report to the Board of Directors, and they have confirmed rules of procedure.

The Committees do not have an independent decision-making power but they function as preparatory bodies and bring the matters subject to consideration to be concluded by the Board of Directors. The Board of Directors is responsible for the tasks assigned to the Committees. The Committees must report regularly to the Board of Directors. The reports must contain, at the very least, a summary of the matters discussed and actions proposed by the Committees. The ordinary general meeting determines the remuneration of the Committee members

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2.3.1. Audit Committee

The Audit Committee prepares matters concerning the Company's financial supervision and reporting. The Board of Directors decided, on 23 February 2017, to appoint Reijo Tauriainen (Chair), Mammu Kaario and Timo Pekkarinen as members of the Audit Committee.

The Audit Committee convened five times in the financial year 2017. The attendance rate of the Committee members was 93% (Reijo Tauriainen 5/5, Mammu Kaario 5/5 and Timo Pekkarinen 4/5).

In accordance with the Rules of Procedure, the key tasks and operating principles of the Audit Committee are described below.

The basic task of the Audit Committee is to:

- monitor the financial statements reporting process
- control the financial reporting process
- monitor the efficiency of the Company's internal control, internal audits, if any, and risk management systems
- process the description of the outline of the internal control and risk management systems relating to the Company's financial reporting process included in the Company's Corporate Governance Statement
- monitor the statutory audit of the financial statements and the consolidated financial statements
- assess the independence of the statutory auditor or the authorised public accountants and especially the provision of ancillary services to the Company, and
- prepare the draft resolution concerning the election of the auditor.

The Board of Directors of the Company will appoint the Chairman and the members of the Audit Committee. The Audit Committee consists of three (3) Board members, of which at least one (1) must have expertise in the field of accountancy, bookkeeping or auditing. The members of the Committee are independent of the Company.

The Audit Committee convenes at least four times a year, and besides the Committee members, the CEO and the CFO of the Company will also regularly participate in the Committee meetings. It will also be possible for the auditors of the Company to participate in these meetings. The Committee members may also meet with external auditors without the representatives of the executive management being present at the meeting.

2.3.2. Compensation Committee

The Compensation Committee prepares the matters concerning the compensation of the CEO and the Company's other management as well as the compensation systems for other personnel. On 23 February 2017, the Board of Directors decided to appoint Pertti Huuskonen (Chair), Mammu Kaario and Satu Ahlman as members of the Compensation Committee.

The Compensation Committee convened four (4) times in the financial year 2017. The attendance rate of the Committee members was 100% (Pertti Huuskonen 4/4, Mammu Kaario 4/4 and Satu Ahlman 4/4).

In accordance with the Rules of Procedure, the key tasks and operating principles of the Compensation Committee are described below

The principal tasks of the Compensation Committee are to:

- prepare matters related to the salaries and other financial benefits of the senior management
- prepare matters concerning the Company's remuneration systems
- assess the remuneration of the CEO and other senior management as well as to ensure the adequacy of the remuneration systems
- answer questions relating to the salary and remuneration report at the general meeting
- prepare matters related to the nomination of the CEO and other senior management as well as survey their potential successors, and
- plan the remuneration of other personnel and the development of the organisation.

The Board of Directors of the Company will appoint the Chairman and the members of the Compensation Committee. The members of the Committee must be independent of the Company, and the CEO or other Board members belonging to the senior management may not become a member of the Committee.

The Compensation Committee convenes at least twice a year. The Compensation Committee may, if necessary, use external experts. In that case, the Committee makes sure that the advisor is not also an advisor to the operating senior management in any capacity that might cause a conflict of interest.

2.4. Shareholders' Nomination Board

The main task of the Nomination Board is to ensure that the Board of Directors and its members have sufficient expertise and knowledge for the needs of the Company, and in this regard prepare well-founded proposals to the annual general meeting related to the election and remuneration of the Board members. The Nomination Board will also prepare the draft resolution concerning the election of the auditor at the general meeting.

The Shareholders' Nomination Board convened two (2) times in the financial year 2017.

The Shareholders' Nomination Board consists of three members appointed by shareholders:

- **Minna Åman-Toivio** (Chair), who is a member of the Board of Partnera Oy that owns the shares of Nurture Property Holding Oy and Nurture Real Estate Holding Oy
- **Kalle Saariaho**, CEO of OP Rahastoyhtiö Oy, which manages OP funds
- **Johannes Wingborg**, Corporate Governance Manager, Länsförsäkringar Fondförvaltning AB

In addition, the Chair of the Company's Board of Directors will participate in the work of the Shareholders' Nomination Board as an expert.

The right to nominate members who represent the shareholders rests with the three shareholders whose share of the votes conferred by all the Company's shares is the largest on 1 September. The largest shareholders are determined based on the shareholder register maintained by Euroclear Finland Ltd and the notifications on major shareholdings received by the Company. Shares owned by a shareholder will be deemed to include shares owned by a controlled entity as referred to in section 2, subsection 4 of the Securities Markets Act (746/2012, as amended). Similarly, shareholders who are controlled by the same entity are considered as a single shareholder. If a shareholder does not wish to exercise its nomination right, the right will be transferred to the next largest shareholder who would otherwise not be entitled to nominate a member.

The Chair of the Board of Directors will be responsible for requesting the three largest shareholders, based on shareholdings on 1 September of each year, to nominate one member each to the Shareholders' Nomination Board. The Nomination Board will elect a Chair from among its members. The term of office of the members of the Nomination Board will end each year once the new Shareholders' Nomination Board has been appointed. The Shareholders' Nomination Board convenes at least once a year

2.5. Chief Executive Officer

The Chief Executive Officer (CEO) will be in charge of the Company's day-to-day management in accordance with the instructions and orders of the Board of Directors. The CEO will be responsible for ensuring that the Company's accounting complies with law, and that its financial management is organised reliably. The CEO must provide the Board of Directors and its members with the information necessary for carrying out its duties.

The CEO may undertake measures that are unusual or extensive in view of the scope and nature of the Company's operations only if authorised to do so by the Board of Directors, or if it is not possible to wait for a decision by the Board of Directors without causing significant harm to the Company's operations. In the latter case, the Board of Directors must be notified of the actions taken as soon as possible.

Jussi Karjula, born 1975, has been the CEO of Hoivatilat since 2010. Karjula has been a member of the Board of Directors of Lännentila Oy since 2013 and a member of the Board of Directors of Perunakauppa Luonnosta Oy between 2005–2016. Karjula was a member of the Board of Directors of Rakennusliike Lapti Oy in 2008–2012. Prior to joining Hoivatilat, Karjula was the CEO of Pohjoisen Kantaperuna Oy (now Perunamestarit Oy) in 2004–2010. Karjula was the Chair of the industry association Pro Peruna in 2008–2010 and a member of the Board of Directors of the Swedish company HZPC Kantaperuna AB in 2007–2010. Karjula received a BBA in Marketing and Economics from the Oulu University of Applied Sciences in 1999.

2.6. Other management of the Company

In addition to the CEO, an executive team has been a part of the other management of the Company since 1 February 2017. The executive team meets on average once a month, and at other times as needed. The task of the executive team is to support the CEO in preparing and implementing strategies, action plans and other important and principle-related matters. In addition, the executive team supports the CEO in ensuring internal cooperation and information flow.

In 2017, the members of the Hoivatilat executive team were:
Tommi Aarnio, born 1983, M.Sc.(econ.), CFO. Employed by Hoivatilat since 2015.
Antti Kurkela, born 1972, Construction Engineer, Sales Director. Employed by Hoivatilat since 2014.
Riikka Säkkinen, born 1979, M.Sc. (econ.), Communications Manager. Employed by Hoivatilat since 2014.
Juhana Saarni, born 1988, BBA, Real Estate Director. Employed by Hoivatilat since 2011.

In addition, **Timo Tanskanen** was a member of the executive team until 11 September 2017.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE CEO AND THE EXECUTIVE TEAM

	31 December 2017	31 December 2017
Name	**Quantity of shares owned**	**Shares owned as percentage of stock**
Jussi Karjula	292,515	1.16%
Tommi Aarnio	36,000	0.14%
Antti Kurkela	2,283	0.01%
Riikka Säkkinen	15,348	0.06%
Juhana Saarni	9,486	0.04%
Total	**355,632**	**1.41%**

Executive team

The CEO appoints an executive team that is appropriate for the operational business. The executive team assists the CEO and develops and monitors all matters falling under the responsibility of the Company. Hoivatilat's executive team was established in the beginning of 2017.

Antti Kurkela

b. 1972, BE

- Member of the executive team since 2017
- Sales Director at Suomen Hoivatilat Oyj since 2016

Riku Patokoski

b. 1974, architect, SAFA

- Member of the executive team since 2018
- Deputy CEO of Suomen Hoivatilat Oyj and regional director of Southern Finland since 2018

Jussi Karjula

b. 1975, BBA

- Chairman of the executive team since 2017
- CEO of Suomen Hoivatilat Oyj since 2010

Tommi Aarnio

b. 1983, MBA

- Member of the executive team since 2017
- CFO of Suomen Hoivatilat Oyj since 2015

Riikka Säkkinen

b. 1979, MBA

- Member of the executive team since 2017
- Communications Manager at Suomen Hoivatilat Oyj since 2017

Juhana Saarni

b. 1988, BBA

- Member of the executive team since 2017
- Real Estate Director at Suomen Hoivatilat Oyj since 2017

3. DESCRIPTION OF THE OUTLINE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE COMPANY'S FINANCIAL REPORTING PROCESS

3.1. Risk management

The aim of risk management is to manage risks relating to the Company's operations in a proactive and comprehensive manner. The Board of Directors and the CEO of the Company are responsible for ensuring that the Company's risk management is organised appropriately and effectively.

The aim of risk management is to secure the efficiency of the Company's operations and its performance as well as to ensure business continuity. Risk management also secures the reliability of the information concerning the Company as well as compliance with the operating principles applied in the Company.

Risk management is implemented cost-efficiently and systematically throughout the Company. Risk management belongs to the Company's strategic and operative planning and is a part of daily decision-making and the Company's internal control. Risk management is a comprehensive approach formed by the objectives and risks of business operations and the associated risk management measures. Risk management consists of all actions that relate to goal setting, risk recognition, measurement, assessment, handling, reporting, monitoring, control and reaction.

Risk management is aimed at:

- identifying and assessing systematically and comprehensively all significant risks threatening the achievement of goals, including risks relating to business, assets, agreements, expertise, currencies, finance and strategy
- using business opportunities to the greatest extent possible and ensuring business continuity even in exceptional situations
- foreseeing and recognising significant uncertainties and hence developing risk prediction and measures required by the risks
- taking only conscious and carefully assessed risks in, for example, expanding the business, improving market position and creating new business
- avoiding or minimising risk of accidents
- ensuring the safety of products, solutions and services
- creating a safe working environment for the personnel
- minimising the occurrence of harmful practices, crime or malpractice by having clear operating principles and adequate supervision
- providing information about risks and risk management to stakeholders, and
- ensuring cost efficiency.

Risk management does not attempt to:

- remove risks in their entirety
- create unnecessary or inefficient processes or control measures, or
- create additional administrative burden.

3.2. Internal control

The task for internal control is to assess the appropriateness, sufficiency and efficiency of the Company's internal control system and risk management as well as the management and administration processes. Internal control is based on a healthy corporate and leadership culture. The Board of Directors, senior management and entire personnel of the Company apply internal control so that the senior management can be reasonably convinced that:

- The different functions of the Company are efficient and effective and comply with the strategy so that the Company optimally promotes the implementation of its business aims and strategy and secures sufficient resources
- The Company's financial reporting and information provided to the senior management are reliable, complete and timely, i.e. the preparation of financial reporting, such as the financial statements, business reviews and half-year reports and information derived from them is reliable
- The Company adheres to applicable laws and regulations as well as the Company's internal guidelines, practices and values.

3.2.1. Hoivatilat's internal control includes the following elements:

- Guidelines and principles of internal control, risk management and administration set by the Board of Directors;
- Introduction and application of guidelines and principles in the control of senior management;

- Monitoring by the finance department of the efficiency and effectiveness of the Company's operations and the reliability of financial and management reporting;
- The Company's risk management process, which is designed to identify, evaluate and reduce risks that threaten the Company's goals;
- Compliance processes to ensure that all applicable laws, regulations, internal guidelines and ethical considerations are respected and upheld;
- Effective control environment at all levels of the organisation, including tailored control measures for specific processes;
- Shared ethical values and a strong culture of internal control among all employees; and
- Where necessary, internal audits to evaluate the effectiveness of internal controls.

3.3. Internal control of financial reporting

With the internal control of the financial reporting, the aim is to ensure the accuracy, reliability, timeliness and appropriateness of financial information.

3.3.1. The financial reporting organisation and its tasks

The Group's financial management is centralised in the parent company. The parent company's organisation, together with an external service provider, provides financial management services to all Group companies. The Group's financial data is jointly produced by the parent company and the external service provider. The key tasks of the financial management are:

- Accounting and Group accounting
- Sales invoicing and handling of accounts receivable
- Management of accounts payable
- Payment transactions
- Calculation of salaries
- Creating financial reports to support monthly business operations
- Cash management and coordination of financial operations
- Control of forecasting and budget process
- Taxation matters
- Company law duties

The Company's Chief Financial Officer is responsible for the Company's financial operations. The CFO is responsible for the operational monitoring of financial operations together with the CEO. The CFO and the CEO report their monitoring observations to the Audit Committee. Financial administration tasks are shared between the parent company and the external service provider on a personal level, and the tasks are included in the job descriptions of the respective teams and persons.

3.3.2. Financial reporting systems

Accounting and the calculation of salaries for the Group companies are carried out using the Tikon system. Group consolidations are made in the Tikon system and IFRS adjustments related to these consolidations are made in Excel format. Management accounting reports are compiled in Excel format. Sales invoicing and invoice processing are arranged in external service provider systems.

3.3.3. Control of financial reporting

The correctness of financial reporting is ensured by guidelines, accreditation and authorisation policies for both internal and external service providers, as well as through distribution of the obligations and tasks related to the general ledger.

The professional skills of the financial management personnel are maintained through regular training. The Company's auditors evaluate the correctness of the reporting, for example when preparing financial reports, and in the course of the audit work carried out during the financial year. The auditors report their findings to the Board of Directors.

3.4. Areas of responsibility and roles of risk management and internal control

The primary roles and areas of responsibility in respect of the Company's internal control and risk management have been determined as follows:

3.4.1. Board of Directors

The Board of Directors is ultimately responsible for the Company administration and the appropriate arrangement of its operations. The task of the Board of Directors is to ensure, in accordance with the principles of good governance, that the Company has appropriately applied its values in its operations. The Board of Directors determines the risk-taking level and the risk-bearing ability of the Company and regularly re-assesses them as a part of the Company's strategy and goal-setting procedures. The Board of Directors reports to the shareholders.

3.4.2. Audit Committee

The Audit Committee of the Board of Directors is responsible for the following tasks relating to internal control:

- supervision of the financial reporting process;
- assessment of the Group's accounting practices;
- evaluation of the auditor's activities and preparation of a proposal for a decision relating to the auditor;
- assessment of the Group's risk management and interest rate hedging policies.

The Audit Committee reports separately to the Board of Directors.

3.4.3. Chief Executive Officer

The Chief Executive Officer is in charge of the Company's day-to-day management in accordance with the instructions and orders issued by the Board of Directors. The CEO creates the foundation for the internal control environment by demonstrating leadership, providing guidelines to the senior management and estimating their methods of controlling the business.

Only if the Board of Directors has separately given the CEO the authority to do so, the CEO has the right to take action that, given the nature and scope of the Company's operations, is of an exceptional nature or has far-reaching consequences. The CEO must immediately notify the Chair of the Board of Directors for the purpose of convening the Board in the event of any exceptional or far-reaching actions that the CEO is not authorised to undertake without the express permission or authorisation of the Board. In connection with the Company's business operations, the sales decisions of completed facilities, the decisions to begin new real estate projects and the selection of main contractors are made by the Board of Directors.

The CEO is under the obligation to report regularly and on his or her own initiative to the Board of Directors on relevant matters and events related to the Company's business operations. The CEO reports on the Company's key events and on irregularities to the Board of Directors at each Board meeting. In addition, the CEO will regularly discuss and report on Company events to the Chair of the Board.

The entire personnel of the Company is responsible for regularly monitoring such matters as the state of the real estate projects that are under construction and any irregularities that are observed. In this connection, considerations related to risk management and security must also be taken into account.

3.4.4. Chief Financial Officer and financial management

The task of the CFO is to ensure and supervise that the Company's accountancy and financial reporting practices comply with law and that both the external and internal financial reporting is reliable.
The financial management is responsible for:

- operational monitoring to ensure the appropriateness, adequacy and efficiency of control activities; and
- ensuring that external reporting is reliable, error-free, and timely, and that it complies with the applicable laws and regulations.

4. OTHER REQUIRED INFORMATION

4.1. Insider management

The guidelines for insiders at Hoivatilat will complement the obligations set by EU regulations, domestic regulations (especially the Finnish Securities Markets Act (746/2012) and the Criminal Code of Finland (39/1889)), the instructions of the Finnish Financial Supervisory Authority, and the insider guidelines of Nasdaq Helsinki. The guidelines for insiders are available for the entire personnel of the Company. The Board of Directors of Hoivatilat has approved the Company's guidelines for insiders.

As a result of the entry into force of EU Market Abuse Regulation 596/2014 (MAR), the Company no longer maintains a public insider register, nor does it maintain a permanent Company-specific insider register. Hoivatilat maintains project and event-specific insider lists, which are not public.

The Company is required to disclose insider information related to the Company as soon as possible. However, the Company may decide to postpone disclosure of insider information if the grounds for postponement of disclosure are met. Any such decisions are made at the Company's own risk. In this case, a project-specific insider list must be established by the Company.

The persons to be listed on the project-specific insider list are any persons to whom the Company issues insider information on a specific project. Project-specific insiders are all persons within the Company who have access to inside information and who work for the Company under a contract of employment, or who otherwise carry out work duties through which they have access to inside information pertaining to the Company. An insider manager is responsible for setting up a project-specific insider list, and for deciding who is to be included on the project-specific insider list at any given time.

The MAR requires the issuer's executives and their related parties to inform the issuer and the Finnish Financial Supervisory Authority on any business operations they conduct with the shares, debt instruments, derivatives or other financial instruments of that issuer. The following executives of the Company are under the obligation to disclose their business operations with the Company's financial instruments:

- Chair and Vice Chair of the Board of Directors
- Board members and deputy members, if any
- CEO and deputies for the CEO, if any, and
- members of the executive team.

The executives and their related parties are obligated, without delay and at the latest within three business days from the date of the business operation in question, to notify the Company and the Financial Supervisory Authority of any business operations conducted using the Company's financial instruments that exceed the annual limit of EUR 5,000.

The Company must publish the business operations reports made by the notifying executives and their related parties as a stock exchange release as soon as possible, and within three (3) business days of the conducted business operation. The Company maintains a list of the executives and their related parties. The list is not public.

The aforementioned executives who are obligated to disclose their business operations may not, whether on their own behalf or on behalf of a third party, carry out transactions using the companies financial instruments before the publication of the Company's half-year report and the financial statements release during a period that starts 30 days before the release of the business review, half-year report or the financial statements release, and ends at the end of the publication date (i.e. a closed period). If the financial statements contain material information previously undisclosed in the financial statements release, such as future prospects, the closed window will also apply to the financial statements.

The Company recommends that executives who are under the obligation to disclose business operations with Company shares or other financial instruments of the Company, should time these transactions so that they will not weaken trust in the securities market. The Company recommends that the executives who are under an obligation to disclose business operations and who conduct long-term investments in the Company's financial instruments, should choose for their transactions the periods during which the market information is as complete as possible with regard to the matters affecting the price of the Company's financial instruments

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4.2. Management of the related parties

Hoivatilat's related parties consist of the Company's subsidiaries, Board members, CEO, CFO, and shareholders who have significant influence over the Company. In addition, the Company's related parties include the immediate family of these persons as well as their controlled companies.

The Company has no separate guidance for the related parties. When preparing transactions with a party belonging to the Company's related parties or when deciding on such transactions, the persons who belong to a related party of the Company's contractual partner or counterparty or persons to whom or to whose related party a material benefit could be expected from a transaction carried or not carried out, must participate in decision-making or other handling of the matter. Transactions with the Company's related parties will be executed at fair market prices. The Company has not loaned funds to the senior management and the Company does not have business operations outside the service relationship with the senior management.

4.3. Internal control

The Company does not have a separate internal control organisation. This has been taken into account in determining the content and scope of the annual audit plan. The audit focuses on specific topics at different times and on separately agreed priorities.

4.4. Auditing of accounts

According to section 6 of the Company's articles of association, the auditor selected for the Company will be an auditing firm that has the approval of the Central Chamber of Commerce. The auditor's term of office ends upon conclusion of the Company's ordinary general meeting following the appointment of the auditor. The Company's auditor for the financial year 2017 was the auditing firm KPMG Oy Ab, which appointed Tapio Raappana, APA, as the main auditor of the Company. The total fees paid for auditing during the financial year 2017 were approximately EUR 26,955. In addition, the auditor was paid a total of approximately EUR 35,024 for non-audit services.

4.5. Salary and remuneration statement

Salary and remuneration statement is available at the Company's website at **www.hoivatilat.fi**. The statement is updated regularly.


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Financial Statements and Board of Directors' Report

Annual Report of the Board of Directors

Suomen Hoivatilat specialises in producing, developing, owning and leasing out kindergarten and nursing home premises, schools and service communities. Hoivatilat, established in 2008, cooperates with as many as 50 Finnish municipalities. It has started over 120 real estate projects throughout Finland. In 2016, the Company was listed on the Nasdaq First North Finland market maintained by Nasdaq Helsinki Oy. In March 2017, it was listed on Nasdaq Helsinki's main market.

At the end of the financial period on 31 December 2017, the Hoivatilat Group consisted of Suomen Hoivatilat Oyj and 109 subsidiary companies. The Group's operational activities are concentrated in the parent company. The subsidiaries are mutual real estate companies, all wholly owned by the parent company.

The growth continues

2017 was a year of strong growth for the Company. Our revenue and the profit for the financial period grew by 66.9% and 73.5%,respectively. During the year , the property portfolio grew by 59.7%, with the value being EUR 247.1 (154.8) million at the end of December.

Material events during the review period

During the financial period, a total of 34 (19) kindergartens and nursing homes were completed, seven in Uusimaa, four in the Kouvola region, three in the Turku region and two properties in each of the following regions: Tampere, Oulu, Kuopio and Lahti. Separate properties were also completed in Jyväskylä, Kajaani, Mikkeli, Kokkola and Tornio. In addition, a service block complex, consisting of three properties was completed in Uusikaupunki.

On 1 March 2017, the Company was moved from the First North market to the main market of Nasdaq Helsinki. The move was driven by the aim to increase the Company's recognition, improve the liquidity of its shares and involve new owner groups. At the end of March, the Company carried out a shares issue directed at institutional investors where 4,500,000 new shares were subscribed and EUR 31.5 million of new capital was collected before expenses. In addition, the issue significantly improved the Company's possibilities to increase its real estate portfolio. The issue introduced new investors into the Company's owner base not only from Finland, but also from Sweden, Norway and the UK. The investors' interest in Hoivatilat remained strong throughout the year, and at the end of the financial period, the Company had over 8,200 shareholders.

KEY INDICATORS

	IFRS Group 31 Dec 2017	IFRS Group 31 Dec 2016	IFRS Group 31 Dec 2015
Revenue, EUR thousand	12,373	7,414	3,823
Operating profit, EUR thousand	33,317	19,304	13,720
Profit for the financial year, EUR thousand	25,504	14,697	10,468
Operational result, EUR thousand	5,436	2,850	1,197
Total balance, EUR thousand	258,071	159,768	97,274
NAV, EUR thousand	143,346	83,055	49,908
NNAV, EUR thousand	129,136	74,841	45,167
Equity ratio, %	50.1%	46.8.%	46.4.%
Net gearing, %	77.6%	90.3%	87.0.%
Return on equity, %	25.0%	24.5%	28.6%
Earnings per share (undiluted), EUR	1.05	0.75	0.79
Earnings per share (diluted), EUR	1.04	0.75	0.79
Dividend per share*	0.13	0.10	0.07
Operational result per share, EUR	0.22	0.15	0.09
Loan-to-value (LTV), %	40.6%	43.7%	43.5%
NAV per share, EUR	5.67	4.00	3.22
NNAV per share, EUR	5.11	3.60	2.92
Net return, %	6.5%	6.9%	7.1%
Value of the agreement portfolio, EUR thousand**	316,046	214,219	139,286
Average maturity of the agreement portfolio (years)	14.4	14.2	14.4
Economic occupancy rate, %	100%	100%	100%
Number of shares adjusted for the share issue at the end of the period	25,288,859	20,788,859	15,486,951
Average number of shares during the period adjusted for the share issue	24,228,585	19,495,409	13,208,595
Average number of shares during the period adjusted for the share issue, diluted	24,408,357	19,618,457	13,249,532
Number of personnel at the end of the period	15	11	7
Average number of personnel during the period	13	10	7

* Proposed by the Board

** Future rent revenue cash flow from the Company's leases and letters of intent, excl. indexation

Economic environment and market outlook

The Ministry of Finance expects the Finnish gross domestic product to grow by 2.4% in 2018 and by 1.9% in 2019. During the third quarter of 2017, the GDP increased by 3.0% year on year. Private consumption will continue to grow supported by better employment, there are no signs of the housing construction cycle slowing down, and plenty of production-related investments have been made. The rapid recovery of exports was, above all, brought about by the growth in world trade and positive economic development of the majority of Finland's important export countries. Exports are growing, driven by demand, and Finland is no longer losing its market shares. Employment will also grow faster in 2018.

The salaries and wages are expected to increase faster in 2018 and 2019. While unit costs will increase, it will be more moderate than in our competitor countries, and the competitiveness of Finnish production will keep improving. The public debt-to-GDP ratio took a downward turn in 2016. The rapid growth of the gross domestic product reduces the public debt ratio, which is expected to fall below 60 per cent in 2019. When the economic growth slows down and the age-related expenses keep increasing, there is a risk that the debt ratio starts rising again in the next decade.

Interest rates are low in Finland and the rest of the eurozone. Low interest rates and the high investor demand have reduced the required return levels and increased the values of real estate properties.

A reform of social and health services of historical proportions is in progress in Finland. It will transfer the responsibility for arranging social and health services to 18 autonomic regions from 1 January 2020 onwards. Increasing the citizens' freedom of choice is an essential element of the reform, and it is expected to open up new opportunities in service production for enterprises and the third sector. The aim of the social and health services reform is to close gaps in health and well-being and put costs in control. In order to attain these goals, social and health services will be merged at all levels in line with the Government's decision. The legislation governing the freedom of choice is a key element of the social and health services reform. It will increasingly allow users to choose private services, which, in the opinion of Hoivatilat, would lead to an increase in the provision of private services and a growing need for privately funded care facilities.

Deadline for comments on the draft of the act governing the freedom of choice was on 15 December 2017. Most of the parties commenting the draft were, in principle, positively inclined towards extending the freedom of choice. The proposed model for the freedom of choice is also expected to promote a change in behaviours and create new service innovations. However, the majority of the parties commenting the draft are critical of the notion that the proposed model for the freedom of choice could close the health and well-being gaps of Finns. Most of the parties commenting the draft are also sceptical about the possibilities for curbing the increase of social and health service costs by three billion euros. The act governing the freedom of choice will be finalised by civil servants. The government bill regarding freedom of choice will be presented to Parliament in March 2018. The entire package of regional reform and social and health services reform is to be passed by Parliament by the end of the spring term.

As a rule, the education and culture services as well as early childhood education services will be part of the municipalities' basic duties, just as now.

Hoivatilat expects the following market trends it has identified to support the Company's growth:

- Ageing of the population and weakening of the dependency ratio
- Urbanisation and concentration of population
- Increasing public debt
- Increased use of private health and social services
- Structural reform of social and healthcare services
- The market for social and health services and housing services
- The market for early childhood education services, the status of the building stock of kindergartens, and increasing popularity of service vouchers

Sources: Economic review, 19 December 2017, at vm.fi and alueuudistus.fi on 19 January 2017.

Research and development

During the 2017 financial period, Hoivatilat invested resources particularly in the development of new concepts, such as service blocks and schools. A project for reducing the life span costs of the properties was initiated last year, further developing models for the energy-efficient heating and lighting of properties. Geothermal heating and LED lights, for example, have been found to be energy-efficient and functional solutions.

During the year, a life span model of Hoivatilat was developed, where the Company assumes a bigger role in the servicing and maintenance of real estate properties. The first life span project was started in the autumn in cooperation with the municipality of Siilinjärvi. At the end of the year, a kindergarten was completed in Jyväskylä, where particular attention was paid to the possibility of monitoring indoor air quality in real time. A smart heating system is also being tested at the same site. It predicts changes in outdoor temperature, allowing savings to be made in energy consumption.

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Financial development

The revenue of Hoivatilat amounted to EUR 12.4 (7.4) million, a growth of 66.9% compared to 2016. The revenue consisted almost entirely of lease income. The increase of revenue results from the considerable increase in the number of the Company's leased properties during the past 12 months. Income from measuring investment properties at fair value was EUR 25.1 (14.8) million. No investment properties were sold during the financial period. The property maintenance costs amounted to EUR -1.0 (-0.6) million, an increase of 55.7% compared to the previous year. The net lease income for the review period amounted to EUR 11.4 (6.8) million, an increase of 68.0%. At the end of the financial period, the Company had 90 (56) finished real estate properties producing rent revenue cash flow. Their net rental profit was 6.5% (6.9%).

Personnel costs amounted to EUR -1.9 (-1.5) million, an increase of 28.5%. The average number of personnel during the financial period was 13 (10). Administrative expenses amounted to EUR -1.2 (-0.8) million, which showed a growth of 55.5% from the previous year. The administrative expenses increased particularly due to the Company's investment in future growth.

Operating profit was EUR 33.3 (19.3) million, which showed a growth of 72.6%.

The net result of financial income and costs amounted EUR -1.4 (-0.9) million, an increase of 61.7%. The increase of financial costs was due to an increase in interest-bearing liabilities. At the end of the financial period, the average rate of interest of the Group's liabilities was 1.53% (1.69%). Taxes based on the taxable income of the financial period were EUR -0.3 (-0.1) million and deferred taxes due to changes in the fair values of properties were EUR -6.1 (-3.6) million.

The net result for the financial period amounted to EUR 25.5 (14.7) million, an increase of 73.5% from the comparison period. The undiluted earnings per share were EUR 1.05 (0.75), and diluted earnings per share were EUR 1.04 (0.75). Operational result was EUR 5.4 (2.9) million, an increase of 90.7% from the previous year.

At the end of the financial period, the consolidated balance sheet total stood at EUR 258.1 (159.8) million, an increase of 61.5% from the comparison period.

Investments

During the financial period of 2017, real estate investments with a total acquisition value of EUR 67.2 (49.5) million were implemented. In all, 34 (18) new properties were completed during the financial period.

Financing

During the financial period of 2017, cash flow from operations amounted to EUR 6.2 million, having been EUR 2.9 million in the previous year. Cash flow from investments was EUR -68.2 (-46.9) million, mainly consisting of investments in new real estate properties. Cash flow from financing was EUR 67.6 (-41.9) million, of which the share issue implemented in the spring represented EUR 31.5 million. At the end of the financial period, the Group's liquid assets stood at EUR 9.8 (4.3) million. On the balance sheet date, the Group had at its disposal cheque account overdraft facilities of EUR 4.0 million, of which EUR 0.0 million were in use. Equity ratio was 50.1% (46.8%).

Properties and agreements

On 31 December 2017, the Company had 90 (56) completed properties generating rent revenue cash flow. There were a total of 39 (30) properties under construction or at the starting phase.

The fair value of investment properties totalled EUR 247.1 (154.8) million, and the net return of the portfolio was 6.5% (6.9%). The fair value of the investment properties is based on an appraisal of the situation as it stood on 31 December 2017. Realia Management Oy's statement on the appraisal of the properties is available on the Suomen Hoivatilat Oy website at **www.hoivatilat.fi**.

PROPERTIES 31/12/2017

	Completed	Under construction and not started*	Total
Properties, total	90	39	129
For rent, floor area in m²	78,452	34,384	112,835
Investment (acquisition cost), EUR thousands	170,710	81,806	252,516
Annual rents, EUR thousands	15,893	6,647	22,541

* In addition to properties in progress, the item Properties under construction and not started also includes properties for which binding leases or letters of intent have been signed, but construction has not commenced yet.

On 31 December 2016, the Company had a total of 129 (86) leases (including letters of intent), which were divided between 30 (20) customers. The value of the agreement portfolio was EUR 316.0 (214.2) million, and the average maturity of the entire agreement portfolio was 14.4 (14.2) years. The Company's three largest key clients accounted for approximately 55 (67) per cent of the agreement portfolio on 31 December 2017. The shares of the three largest clients in the agreement portfolio were 23 (29) per cent, 22 (27) per cent and 10 (11) per cent, respectively. Otherwise, the Company has a diverse client base in both kindergartens and nursing homes. The Company's most important tenants are Finland's largest chains and well-known brands in the nursing and day care sector.

Sixty per cent of the agreement portfolio consisted of the rental income from properties located in the Greater Helsinki Area / Uusimaa region and the Lahti, Tampere, Turku, Oulu, Jyväskylä and Kuopio regions. Of the agreement portfolio, 22 per cent was made up of properties in other municipalities with more than 30,000 inhabitants and 18 of properties in municipalities with less than 30,000 inhabitants for which it has been assessed that the demographic structure of population also provides a readily predictable need for services in the future.

REGION	Share of the agreement base
Greater Helsinki Area / Uusimaa	21%
Lahti Region	8%
Tampere Region	8%
Turku Region	8%
Oulu Region	5%
Jyväskylä Region	5%
Kuopio Region	5%
Other municipalities with more than 30,000 inhabitants	22%
Other localities	18%
Total	100%

Shares and shareholders

The number of the Company's shares was 25,288,859 on 31 December 2017. The Company holds no own shares. The closing price of the Company's share on 29 December 2017 was EUR 7.30 and the combined market value of the shares was EUR 184.6 million. During the period under review, the highest and lowest closing prices of the Company's share were EUR 9.12 and EUR 7.00, respectively. During the year, the turnover of Suomen Hoivatilat Oyj's shares was 64.9 million shares.

On 1 March 2017, the Company was moved from the First North market to the Nasdaq Helsinki main market. At the end of March, the Company carried out a shares issue directed at institutional investors where 4,500,000 new shares were subscribed and EUR 31.5 million of new capital was collected before expenses. The issue allowed the real estate portfolio to be significantly increased. The issue introduced notable investors into the Company's owner base not only from Finland, but also from Sweden, Norway and the UK. The number of the Company's shareholders more than doubled during 2017 and was 8,243 on 31 December 2017.

Disclosure notifications

On 3 March 2017, OP Rahastoyhtiö Oy announced that the shareholding and voting rights held in Hoivatilat by two investment funds it manages, OP-Suomi Arvo and OP-Suomi Pienyhtiöt, have exceeded the five per cent limit.

On 28 March 2017, Timo Pekkarinen announced that the total shareholding and voting rights held in Hoivatilat by him and Tirinom Oy, a company controlled by Mr. Pekkarinen, have decreased below the five per cent limit.

On 28 March 2017, Partnera Oy announced that the total shareholding and voting rights held in Hoivatilat by two companies it manages, Nurture Property Holding Oy and Nurture Real Estate Holding Oy, have decreased below the 20 per cent limit.

On 11 May 2017, Länsförsäkningar Fondförvaltning AB announced that its shareholding and voting rights in Hoivatilat have exceeded the five per cent limit.

On 16 October 2017, OP Rahastoyhtiö Oy announced that the shareholding and voting rights held in Hoivatilat by OP-Suomi, an investment fund it manages, have exceeded the five per cent limit.

Group structure

At the end of the financial period on 31 December 2017, the Hoivatilat Group consisted of Suomen Hoivatilat Oyj and 109 subsidiary companies. The Group's operational activities are concentrated in the parent company. The subsidiaries are mutual real estate companies, all wholly owned by the parent company.

Assessment of risks and uncertainties regarding the operations

Financial and strategic risks

The uncertainty of global economy and financial markets may affect the Company. If the future development of the Finnish economy is unfavourable and regional incoherence increases, it may have an adverse effect on the Company's business, results from operations, financial position and/or future prospects.

Strategic risks include those related to the competitive situation in the market and dependency on a limited number of customers. As the sector has become increasingly attractive as an investment, new actors have entered the market. The future growth of the Company will depend on the successful implementation of its business strategy.

The real estate projects owned by Hoivatilat are designed and built as nursing homes and kindergartens as well as service communities combining the two functions. However, the Company prepares even during the design phase of real estate projects for the possibility that the premises could be modified and thus utilised for purposes other than nursing homes and kindergartens. Nevertheless, there is no certainty that the properties could be used for other purposes, such as housing or office use, if the need for which they were originally planned would disappear. If this risk materialises, it could have material negative impact on the Company's business, results from operations, financial position and/or future prospects. Significant changes in legislation or regulations by the authorities may also impact the operations of the Company's customers and, subsequently, the demand for properties.

The Company's strategic goal is to grow at a faster rate than the market. Hoivatilat's management believes that the Company can mainly seek to increase its profits by implementing new real estate projects and increasing its revenue. According to the assessment of the management, implementing new real estate projects and increasing the revenues in accordance with the goal will require identifying new real estate projects, developing and expanding current customer relationships, winning new customers and expanding the geographic scope of the operations. There are no guarantees that the Company will be successful in finding new real estate projects or acquiring new customers.

The company values the properties it owns on its balance sheet in accordance with the IAS 40 standard, at fair value. The fair value is based on real estate appraisals by an external valuer. Estimates of property values that are presented in real estate appraisals do not necessarily correspond to the actual market prices for the properties. A change in the fair value of a property is recognised as measured through profit and loss in the income statement as a gain or loss in valuation for the period in which it is incurred. Consequently, a company may make significant gains or losses on changes in the fair value of the properties, regardless of whether properties of these kinds are sold. A company may be adversely affected by the valuation losses of existing properties even if its business operations are profitable. A drop in current values may lead, for example, to violation of the loan-to-value ratio (LTV) covenant. If a covenant of a debt obligation cannot be changed, or if it is not possible to be released from it, this may adversely affect the terms of the company's financing. Changes in fair values affect the parent company's distributable funds. In accordance with its dividend policy, the company's dividend distribution is based on its operating result.

Operative risks

Among other things, operative risks are related to dependency on the competence of key personnel and possible fluctuations in the demand for the real estate properties provided by the Group. As a growth company, Hoivatilat involves certain risks that, if materialised, could have material negative impact on the Company's business, results from operations, financial position and/or future prospects.

Having committed key personnel is important for the Company. The Company's success essentially depends on the professional competence of the management and personnel of Hoivatilat, the Company's ability to commit the current management and other key personnel, and to recruit new, competent personnel also in the future. Employee wellbeing and job satisfaction are assessed in connection with development discussions conducted quarterly with the personnel. In addition, a satisfaction survey among the personnel is commissioned once a year. A share incentive programme has also been created for key personnel.

Risks of damage

The construction business has a higher accident frequency than many other sectors. By their very nature, construction sites are dangerous working environments where serious or even lethal accidents may occur. All accidents have an adverse effect on the Company's business and the well-being of its personnel. Accident investigations performed in cooperation with public authorities are costly and delay the construction work. The Company's insurance premiums increase if the accident frequency increases. Furthermore, the accidents may result in the Company's management and employees becoming liable under civil and criminal law. Accidents may also harm the Company's reputation. If any risk related to the health and safety of personnel materialises, it can have material negative impact on the Company's business, results from operations, financial position and/or future prospects.

The Company has the properties constructed by reliable and experienced construction companies typically as turnkey-projects. Possible water damages and impurities of the indoor air that can cause interruptions in operation and damage the Company's reputation can be considered as risks related to construction and maintenance of properties. The risks have been prepared to contractually, and it has been taken into account that the contractor's warranty on built premises is two years and according to general terms of a turnkey-contract the contractor's liability is ten years.

According to the Company's assessment, its insurance cover is typical for the sector, sufficient to cover ordinary accidents. The real estate properties are insured for their full values. The Company's management and Board of Directors have valid liability insurance.

Financial risks

Expansion of the scale or geographical scope of operations requires sufficient working capital as well as the availability of own and borrowed capital. Possible instability of financial markets, general deterioration of the availability of financing and an increase of financing costs may have an adverse effect on the Company's possibilities to obtain additional funding or reduce the liquidity of real estate properties, thus making them more difficult to sell.

Changes in the interest level have significant impact on the real estate business. Changes in the market rates of interest and interest margins can affect the Company's financing costs and financial income. Changes in the interest rates affect the Company's variable rate loans and their interest expenses, which increase with the market interest rates. The Company is closely watching the developments regarding interest rates and actively hedges against any changes. The Company mainly uses interest rate swaps for managing the interest rate risk. The fair value of interest rate swaps and the negative and positive cash flows produced by them depend on changes in the interest rates. As the profit or loss made by the Company for the swaps has not been limited, a considerable decrease of interest rates, for example, may lead to a situation where the interest rate swaps have material negative impact on the Company's cash flow, financial position and/or future prospects. Although the Company believes that it is in control of its interest risks, there can be no certainty that the Company's hedging measures are efficient or that the fluctuations in interest rates do not have material negative impact on the Company's business, results from operations, financial position and/or future prospects.

The Company's rental receivables are associated with a risk of the customers not being able to pay back their debts when they mature. As a rule, the Company's lease agreements include a deposit equal to a rent of 3–6 months, which, from the Company's perspective, reduces the risks and loss of income caused by the customers' possible payment difficulties. The property occupancy rate and the financial status of the tenants are monitored by means of regular meetings and financial monitoring.

Responsibility and environmental issues

The main focal areas of the Company's corporate responsibility are engaging in a profitable business, looking after the well-being and development of personnel and environmental responsibility. From the environmental perspective, essential measures include the reduction of energy consumption and the use of ecological heating systems in the real estate properties whenever possible. In addition, the Company wants to leverage digitalisation to extend the lifecycle of real estate properties and ensure responsible ownership.

The Company favours environmentally friendly forms of heating in its real estate properties. The customers are increasingly interested in ecological solutions and hybrid forms of heating combining several heating methods. In 2016, solar panels were installed in the first property. Data on the solar panels was collected throughout 2017. It was found that the system is particularly suitable for nursing homes that are occupied 24/7/365, as the utilisation rate of electricity is higher than in kindergartens, for example.

Geothermal heating is used in an increasing number of Hoivatilat's properties. The customers consider it to be a safe and environmentally friendly heating solution with a long service life. With respect to lighting, LED technology is becoming increasingly attractive. LED lighting is well suited for kindergartens and particularly for nursing homes where the lights are on around the clock. LED lighting has been installed in several sites, and its impact on the electricity consumption of the properties is being monitored.

In 2017, one of our priorities was the measuring of indoor air quality, and the first pilot project was carried out in Jyväskylä in a building completed in December 2017. Indoor air quality measurements are carried out using modern and advanced sensor technology, and the users can monitor the indoor air conditions on a daily basis. A smart heating system is also tested in the same pilot project. It predicts changes in outdoor temperature, thus allowing savings in energy consumption.

All properties of Hoivatilat are covered by remote monitoring. It allows the heating and ventilation of properties to be centrally controlled. This enables, among other things, improving the property lifecycle, adjusting the heating to suit the time concerned and ensuring that the correct volume of indoor air is replaced in the premises.

Personnel

At the end of 2017, Hoivatilat had a CEO and 14 employees. The average number of employees during the review period was 13. The organisation of Hoivatilat is divided into two geographical units. The Company's head office is in Oulu, and its other office is in Espoo.

Board of Directors and management of the Company

The members of the Hoivatilat Board of Directors are Pertti Huuskonen (chairperson), Mammu Kaario, Timo Pekkarinen, Reijo Tauriainen and Satu Ahlman.

Three members of the Board are also members of the Audit Committee. The Audit Committee is responsible for the preparation of matters concerning the monitoring and reporting of the Company's financial position. The members of the Audit Committee are Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. Reijo Tauriainen chairs the committee.

Three members of the Board are also members of the Compensation Committee. The Compensation Committee is responsible for preparing proposals for the compensation of the CEO, other management and other personnel. The members of the Compensation Committee are Pertti Huuskonen, Mammu Kaario and Satu Ahlman. Pertti Huuskonen chairs the committee.

The members of the Shareholders' Nomination Committee are Minna Åman-Toivio, Kalle Saariaho and Johannes Winborg. Pertti Huuskonen, Chairman of the Board of Suomen Hoivatilat Oyj, acts as an expert member of the Nomination Committee.

The Company's auditor is KPMG Oy Ab Authorised Public Accountants, with APA Tapio Raappana as the principal auditor.

The members of the Group's executive team are CEO Jussi Karjula, CFO Tommi Aarnio, Sales Director Antti Kurkela, Property Director Juhana Saarni, Communications Manager Riikka Säkkinen and, from 1 January 2018, Deputy CEO, Regional Director of Southern Finland Riku Patokoski.

Ordinary General Meeting of 2017

The Annual General Meeting of Hoivatilat was held on 23 February 2017 in Oulu. The Ordinary General Meeting adopted the financial statements and discharged the members of the Board of Directors and the CEO from liability for the financial period of 2016.

Decisions by the Ordinary General Meeting

In line with the proposal by the Board of Directors, the GM decided to distribute EUR 0.10 per share as dividend for the financial period ended on 31 December 2016. The dividends were paid to shareholders who, on the dividend record date of 27 February 2017, were included in the Company's list of shareholders maintained by Euroclear Finland Oy. The dividends were paid on 7 March 2017.

The GM approved five as the number of Board members and elected Pertti Huuskonen, Timo Pekkarinen, Reijo Tauriainen and Mammu Kaario as Board members and Satu Ahlman as a new member. Pertti Huuskonen was elected as Chairperson of the Board. The term of office of the Board members ends at the close of the following Ordinary General Meeting.

The GM decided that the Board members will be paid a monthly compensation of EUR 1,250 and the Chairperson of the Board a monthly compensation of EUR 2,000. In addition, the Board members will be paid a reward of EUR 600 and the Chairperson of the Board a reward of EUR 1,200 for each meeting. If a Board member or chairperson has to travel for more than three hours to attend the meeting, they will receive 1.5 times the standard meeting fee.

The auditor elected for a term ending at the end of the next Ordinary General Meeting was KPMG Oy Ab, Authorised Public Accountants, with APA Tapio Raappana as the principal auditor. The auditor is compensated on the basis of a reasonable invoice.

The Ordinary General Meeting authorised the Board of Directors to decide on the issue of a maximum of 10,000,000 new shares or shares held by the Company in one or more share issues with consideration, which can be directed share issues or share issues in accordance with shareholders' pre-emptive subscription right.

The share issue authorisation will remain valid until the end of the next Ordinary General Meeting, however no later than 30 April 2018. The proposed authorisation supersedes all earlier share issue authorisations but not the earlier authorisations to issue special rights entitling to shares.

The General Meeting approved the amendment of the rules of procedure of the Shareholders' Nomination Board in line with the Nomination Board's proposal.

Events after the review period

No material events after the review period.

Financial goals for 2018–2020

Hoivatilat expects an annual revenue growth of at least 40% in 2018 and at least 30% in 2019–2020. The operational result is expected to be on average 40% of revenue and the equity ratio to be on average 35% in 2018–2020.

The Board of Directors' proposal regarding distribution of profits

At the end of the financial period, the Company's distributable funds stood at EUR 129,686,471. The Board proposes to the GM convening on 27 March 2018 the distribution of the Company's distributable funds: to pay a dividend of EUR 0.13 per share, i.e. a total of EUR 3,287,551.67, on the basis of the number of shares on the balance sheet date. The proposed dividend corresponds to approximately 60.5% of the operational result for the financial period.

According to Hoivatilat's dividend distribution policy, the goal is to distribute at least 50% of the operational result as dividends every year. If dividends are paid, all the Company's shares entitle to equal dividends. The operational result describes the profitability of the Company's business operations without the effect of changes in the fair values of real estate properties. In line with the dividends policy, the Company's distribution of dividends is based on the operational result.

No material changes have taken place in the financial position of Hoivatilat after the end of the financial period. The liquidity of Hoivatilat is good, and the Company's Board of Directors is of the opinion that the proposed distribution of dividends will not compromise the Company's liquidity.

General Meeting 2018

The Ordinary General Meeting of 2018 will be held in Oulu on 27 March 2017 starting at 3:00 p.m.

Financial communications in 2018

Hoivatilat published the Financial Statements Bulletin and the financial statements for 2017 on 13 February 2018. The Company organised a results publication event in Helsinki on 13 February 2018. The financial statement is available on the Company's website at **https://hoivatilat.fi/en/investors/**.

The Business Review for January–March 2018 will be published on 3 May 2018. The Half-year Review of Hoivatilat for January–June will be published on 16 August and the Business Review for January–September on 1 November 2018.

SHARE INFORMATION

LARGEST REGISTERED SHAREHOLDERS 31 DEC 2017		
Shareholder	**Shares**	**%**
Nurture Property Holding Oy	3,078,381	12.17%
Skandinaviska Enskilda Banken AB	1,734,449	6.86%
Nurture Real Estate Holding Oy	1,688,631	6.68%
OP-Suomi Arvo -sijoitusrahasto	1,587,273	6.28%
Hintsala Eino	941,439	3.72%
Pekkarinen Timo Jaakko	896,489	3.54%
Nordea Bank Ab (Publ), Suomen Sivuliike	772,712	3.06%
Milerosa Oy	604,776	2.39%
Ahola Tuomas Veli	565,444	2.24%
OP-Suomi Pienyhtiöt -sijoitusrahasto	524,863	2.08%
Eläkevakuutusosakeyhtiö Veritas	450,000	1.78%
Hyväri Harri Tapani	432,348	1.71%
Kusinkapital Ab	353,257	1.40%
Lunacon Oy	352,456	1.39%
Keskinäinen Eläkevakuutusyhtiö Etera	300,000	1.19%
Investment Fund Arvo Finland Value	300,000	1.19%
Karjula Jussi Pekka	292,515	1.16%
Mevita Invest Oy	292,216	1.16%
Väisänen Ahti Pekka Olavi	285,500	1.13%
Veikkolainen Erkki	264,410	1.05%
20 largest shareholders total	15,717,159	62.2%
Other shareholders	9,571,700	37.8%
All shares total	**25,288,859**	**100.0%**

SHAREHOLDINGS 31 DECEMBER 2017				
	Number of shareholders	**Shareholders, %**	**Number of shares**	**Shares, %**
1 - 100	2773	33.6%	143,534	0.6%
101 - 500	3512	42.6%	915,832	3.6%
501 - 1 000	1007	12.2%	781,117	3.1%
1 001 - 5 000	765	9.3%	1,466,699	5.8%
5 001 - 10 000	72	0.9%	549,766	2.2%
10 001 - 50 000	64	0.8%	1,612,695	6.4%
50 001 - 100 000	15	0.2%	1,046,235	4.1%
100 001 - 500 000	28	0.3%	6,378,524	25.2%
500 001 -	10	0.1%	12,394,457	49.0%
Total	**8246**	**100,0%**	**25,288,859**	**100.0%**

SHAREHOLDERS BY SECTOR 31 DECEMBER 2017	Number of shares	Shares, %
Households	9,675,573	38.3%
Public sector entities	925,861	3.7%
Financial and insurance institutions	5,924,516	23.4%
Companies	8,451,915	33.4%
Non-profit entities	265,810	1.1%
Foreign ownership	45,184	0.2%
Combined total	**25,288,859**	**100.0%**
Of which nominee registered	2,733,496	

The Company's shares are listed on the First North Finland market of Nasdaq Helsinki Oy on 31 March 2016.

Reserved trading code	HOIVA
ISIN code	FI4000148648
Highest price of the share during the financial year (EUR)	9.12
Lowest price of the share during the financial year (EUR)	7.00
Closing price of the share at the end of the financial year (EUR)	7.30
Market value 31 December 2017 (EUR)	184,608,671
Trading volume 31 March–31 December 2017 (pcs)	6,491,905
Number of shares 31 December 2017 (pcs)	25,288,859

KEY FIGURE FORMULAS

IFRS-key figures

Earnings per share (EPS), undiluted, EUR =

$$\frac{\text{Profit for the period belonging to the parent company's shareholders}}{\text{Weighted average of the number of shares in the review period}}$$

Earnings per share (ESP), diluted, EUR =

$$\frac{\text{Profit for the period belonging to the parent company's shareholders}}{\text{Weighted average of the number of shares adjusted with the dilution effect in the review period}}$$

Dividend per share, EUR =

$$\frac{\text{Dividend paid for the financial year}}{\text{Number of shares entitled to dividend}}$$

Alternative key figures

Equity ratio, % =

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

Net gearing, % =

$$\frac{\text{Interest-bearing liabilities - cash in hand and at banks}}{\text{Equity}} \times 100$$

Return on equity, % =

$$\frac{\text{Profit/loss for the financial year}}{\text{Average equity during the financial year}} \times 100$$

Economic occupancy rate, % =

$$\frac{\text{Gross rents for the review period / number of months}}{\text{Potential gross rents / number of months}} \times 100$$

Operational result, EUR thousand = Profit for the financial year - /+ Net gains/losses from measuring investment properties at fair value -/+ Net gains/losses from divestments of investment properties +/- Taxes based on the profit for the financial year generated by the aforementioned items +/- Deferred taxes generated by the aforementioned items

Operational result per share, EUR =

$$\frac{\text{Operational result}}{\text{Weighted average of the number of shares in the review period}}$$

NAV, EUR thousand = Equity belonging to parent company's shareholders + deferred tax liability generated by measuring investment properties at fair value

NAV per share, EUR =

$$\frac{\text{NAV}}{\text{Number of shares adjusted for the share issue at the end of the period}}$$

NNAV, EUR thousand = NAV - deferred tax liability generated by measuring investment properties at fair value

NNAV per share, EUR =

$$\frac{\text{NNAV}}{\text{Number of shares adjusted for the share issue at the end of the periodv}} \times 100$$

Net return, % =

$$\frac{\text{Annualised rental income for the month of the financial statements - the forecast 12-month expenses of the properties in question}}{\text{Value of the investment properties generating rental cash flow for the month of the financial statements}} \times 100$$

Loan-to-value (LTV), %

$$\frac{\text{Financial liabilities - Cash and cash equivalents}}{\text{Fair value of investment properties}}$$

RECONCILIATION CALCULATIONS CONCERNING CERTAIN KEY FIGURES		
Net return, %		
EUR thousand	**31 Dec 2017**	**31 Dec 2016**
Annualised rental income for the month of the financial statements	15,157	8,847
The forecast 12-month expenses of the properties generating rental income	-864	-669
Net rental income	14,293	8,178
Value of the investment properties generating rental cash flow for the month of the financial statements	221,270	118,210
Net return, %	**6.5 %**	**6.9 %**
NAV, EUR thousand		
EUR thousand	**31 Dec 2017**	**31 Dec 2016**
Equity belonging to the parent company's shareholders	129,136	74,841
Deferred tax liability generated by measuring investment properties at fair value	14,210	8,214
NAV, EUR thousand	**143,346**	**83,055**
Operational result		
EUR thousand	**31 Dec 2017**	**31 Dec 2016**
Profit for the financial year	25,504	14,697
-/+ Net gains/losses from measuring investment properties at fair value	-25,086	-14,809
-/+ Net gains/losses from divestments of investment properties	0	0
+/- Taxes based on the profit for the financial year generated by the aforementioned items	0	0
+/- Deferred taxes generated by the aforementioned items	5,017	2,962
Operational result	**5,436**	**2,850**

CONSOLIDATED INCOME STATEMENT IFRS

CONSOLIDATED INCOME STATEMENT IFRS CONSOLIDATED INCOME STATEMENT IFRS			
EUR	Note	**1 Jan–31 Dec 2017**	**1 Jan–31 Dec 2016**
TOTAL REVENUE	1, 2	**12,372,792**	**7,414,028**
Transfers of investment properties and changes in fair value	3, 10	25,085,586	14,809,103
Expenses of employee benefits	4, 16, 24	-1,884,728	-1,467,141
Depreciation	5	-10,070	-8,210
Other operating expenses	6	-2,246,523	-1,444,093
OPERATING PROFIT (LOSS)		**33,317,058**	**19,303,688**
Financial income	7	585	3,522
Financial expenses	7	-1,399,723	-868,713
PROFIT BEFORE TAXES		**31,917,921**	**18,438,498**
Taxes for the financial year and previous periods	8	-6,413,774	-3,741,105
PROFIT FOR THE FINANCIAL YEAR		**25,504,147**	**14,697,393**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IFRS			
EUR	Note	**1 Jan–31 Dec 2017**	**1 Jan–31 Dec 2016**
PROFIT FOR THE FINANCIAL YEAR		**25,504,147**	**14,697,393**
Other comprehensive income items			
Items that may be reclassified to profit or loss later:			
Cash flow hedging	19	113,095	-309,692
Taxes associated with other comprehensive income items	12	-22,619	61,938
Other comprehensive income items for the financial year after taxes		**90,476**	**-247,754**
COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**25,594,623**	**14,449,639**
Distribution of profit for the financial year			
To parent company shareholders		25,504,147	14,697,393
To shareholders with non-controlling interest		0	0
Distribution of comprehensive income for the financial year			
To parent company shareholders		25,594,623	14,449,639
To shareholders with non-controlling interest		0	0
Earnings per share calculated on the profit belonging to the parent company's shareholders			
Undiluted earnings per share	9	1,05	0,75
Earnings per share adjusted with the dilution effect	9	1,04	0,75

CONSOLIDATED BALANCE SHEET IFRS

CONSOLIDATED BALANCE SHEET IFRS			
EUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets		14,016	14,050
Investment properties	10	247,066,462	154,751,290
Machinery and equipment		32,971	21,723
Deferred tax assets	12	377,783	214,758
Total non-current assets		**247,491,232**	**155,001,821**
Current assets			
Trade receivables and other receivables	13	734,766	436,748
Cash and cash equivalents	14	9,844,945	4,329,328
Total current assets		**10,579,711**	**4,766,076**
ASSETS TOTAL		**258,070,943**	**159,767,897**
EQUITY AND LIABILITIES			
Equity belonging to the parent company's shareholders			
Share capital	15	80,000	80,000
Invested non-restricted equity reserve		69,720,511	39,109,917
Fair value reserve		-157,278	-247,754
Retained earnings/losses		33,988,430	21,201,642
Profit/loss for the financial year		25,504,147	14,697,393
Equity belonging to the parent company's shareholders, total		**129,135,811**	**74,841,198**
Non-current liabilities			
Financial liabilities	17	101,156,352	66,863,991
Deferred tax liabilities	12	14,429,667	8,318,775
Total non-current liabilities		**115,586,019**	**75,182,766**
Current liabilities			
Financial liabilities	17	8,901,139	5,044,282
Trade payables and other liabilities	18	4,447,974	4,699,650
Total current receivables		**13,349,113**	**9,743,932**
Total liabilities		**128,935,131**	**84,926,698**
EQUITY AND LIABILITIES TOTAL		**258,070,943**	**159,767,897**

CONSOLIDATED CASH FLOW STATEMENT IFRS

CONSOLIDATED CASH FLOW STATEMENT IFRS			
EUR	Note	**1 Jan–31 Dec 2017**	**1 Jan–31 Dec 2016**
Cash flow from operations			
Profit for the financial year		25,504,147	14,697,393
Adjustments			
Non-cash transactions and other adjustments	21	-24,907,234	-14,677,203
Interest and other financial expenses		1,399,723	868,713
Interest income		-585	-3,522
Taxes		6,413,774	3,741,105
Changes in working capital			
Change in trade receivables and other receivables		-296,473	-368,313
Change in trade payables and other liabilities		-384,811	-160,782
Interest paid		-1,351,279	-1,033,470
Interest received		585	2,146
Taxes paid		-203,562	-184,209
Net cash flow from operations (A)		**6,174,284**	**2,881,858**
Cash flow from investment activities			
Divestment of subsidiaries less their cash and cash equivalent on the date of divestment		-2,421,607	0
Investments in property, plant, and equipment	10	-65,802,386	-46,920,160
Investments in intangible assets		-5,005	-4,350
Net cash flow from investment activities (B)		**-68,228,998**	**-46,924,510**
Cash flow from financing activities			
Payments from the share issue	15	31,500,000	16,804,089
Loan withdrawals	17	44,955,476	29,427,203
Loan repayments	17	-6,806,260	-3,338,503
Dividends paid	15	-2,078,886	-1,033,671
Cash flow from financing activities (C)		**67,570,331**	**41,859,119**
Change in cash and cash equivalents (A + B + C)		**5,515,617**	**-2,183,533**
Cash and cash equivalents at the beginning of the financial year		4,329,328	6,512,861
Cash and cash equivalents at the end of the financial year		9,844,945	4,329,328

CALCULATION OF CHANGES IN THE GROUP'S EQUITY IFRS

CALCULATION OF CHANGES IN THE GROUP'S EQUITY IFRS						
		Equity belonging to the parent company's shareholders				
EUR	Note	Share capital	Invested non-restricted equity reserve	Fair value reserve	Retained earnings	Equity, total
Equity on 1 Jan 2016 IFRS	15	50,000	23,005,805	0	22,111,623	45,167,428
Comprehensive income						
Profit for the financial year					14,697,393	14,697,393
Other comprehensive income items*						,
Cash flow hedging				-247,754		-247,754
Total comprehensive income				**-247,754**	**14,697,393**	**14,449,639**
Transactions with shareholders						
Distribution of dividends					-1,033,671	-1,033,671
Share issue	15	30,000	16,774,089			16,804,089
Transaction costs of the share issue with the adjusted impact of deferred taxes			-669,977			-669,977
Incentive system					123,690	123,690
Transactions with shareholders, total		**30,000**	**16,104,112**		**-909,981**	**15,224,132**
Equity on 31 Dec 2016		**80,000**	**39,109,917**	**-247,754**	**35,899,035**	**74,841,198**
Equity on 1 Jan 2017	**15**	**80,000**	**39,109,917**	**-247,754**	**35,899,035**	**74,841,198**
Comprehensive income						
Profit for the financial year					25,504,147	25,504,147
Other comprehensive income items*						,
Cash flow hedging				90,476		90,476
Total comprehensive income for the financial year				**90,476**	**25,504,147**	**25,594,623**
Transactions with shareholders						
Distribution of dividends					-2,078,886	-2,078,886
Share issue	15		31,500,000			31,500,000
Transaction costs of the share issue with the adjusted impact of deferred taxes			-889,406			-889,406
Incentive system					168,282	168,282
Transactions with shareholders, total		**0**	**30,610,594**		**-1,910,604**	**28 699 990**
Equity on 31 Dec 2017		**80,000**	**69,720,511**	**-157,278**	**59,492,577**	**129,135,811**

* Items that may be reclassified to profit or loss later.

ACCOUNTING POLICIES FOR CONSOLIDATED FINANCIAL STATEMENTS

Group's basic information
Suomen Hoivatilat Group specialises in producing, developing, owning and leasing out nursing homes, day care centres and service blocks. The Group's parent company is Suomen Hoivatilat Oyj with shares listed on the Nasdaq Helsinki Main list since the 1st of March 2017.

The parent company's registered office is in Oulu, Finland, and its registered address is Lentokatu 2, 90460 Oulunsalo. Copies of the consolidated financial statements are available at **www.hoivatilat.fi** or from the Group's registered address.

Suomen Hoivatilat Oyj's Board of Directors approved these financial statements for publication in its meeting on (27 February 2018). In accordance with the Finnish Limited Liability Companies Act, shareholders can approve or reject the financial statements in the Annual General Meeting to be held after the financial statements have been published. The Annual General Meeting can also decide to amend the financial statements.

Basis of preparation of the financial statements
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), and the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2017 have been applied in preparing them. 'International Financial Reporting Standards' refer to the standards and interpretations thereof approved for application in the EU in accordance with the procedure stipulated in the Finnish Accounting Act and related regulations in the EU directive (EC) N:o 1606/2002. The applicable Finnish accounting and corporate legislation requirements supplementing the IFRS regulations have also been taken into account when preparing the Notes to the financial statements.

The consolidated financial statements are prepared for a calendar year, which is the financial year for the Group's parent company and other Group companies.

The consolidated financial statements have been prepared based on original acquisition costs, with the exception of investment properties and the monetary portion of the share reward system, which have been measured at fair value.

The financial statements are presented in euros.

The preparation of the financial statements in compliance with IFRS calls for estimates and decisions based on judgement by the Group's management. Information on the decisions based on judgement, which the management has used when applying the Group's accounting principles and which have the greatest impact on the figures presented in the financial statements, as well as the assumptions concerning the future and the key assumptions related to the estimates are presented in section "Main uncertainties in respect of estimates" of the accounting principles.

Consolidation principles
The subsidiaries are companies in which the Group has controlling interest. Controlling interest is generated when the Group, by being involved in an entity, is exposed to the variable profit of the entity or is entitled to its variable profit and is able to influence this profit by exercising its power in the entity.

The Group's mutual shareholding has been eliminated by means of the purchase method. All intra-Group transactions, receivables, liabilities, unrealised profits, and internal distribution of profits are eliminated when preparing the consolidated financial statements.

All subsidiaries included in the consolidated financial statements are wholly owned and established by the parent company, and the Group does not include shares of non-controlling shareholders.

Transactions denominated in foreign currency
Transactions denominated in foreign currency have been measured in the operating currency of the Group companies using the exchange rate of the transaction date. Monetary items and liabilities denominated in foreign currency have been translated into euro at the exchange rates of the closing day of the financial year.

Profit and loss from transactions denominated in foreign currency and translation of monetary items have been measured through profit and loss.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are measured at acquisition cost less accumulated depreciation and any impairment losses and are depreciated in accordance with the predefined depreciation plan over their economic lives. Intangible assets are primarily depreciated with straight-line depreciation of 5 years and machinery and equipment are depreciated with straight-line depreciation of 10 years from the original acquisition cost.

Additional costs generated later will be capitalised if is likely that they will generate future financial benefit for the company and that they can be reliably determined and allocated to an asset. Otherwise, they are recognised as an expense in the income statement.

The economic life of intangible assets and property, plant and equipment is reviewed annually and their book values are assessed for any impairments. If indications of impairments exist, the recoverable monetary amount of the asset item is determined. The recoverable monetary amount is also assessed annually for intangible assets in progress, regardless of whether there are any indications of impairments.

The recoverable amount is defined as the fair value of the asset less cost to sell or the value in use, whichever is higher. Value in use refers to the estimated future net cash flows from the asset or cash-generating unit in question, which are discounted at their current value. The discount rate used is the interest rate defined before tax, which reflects the market's view of the time value of money and the special risks associated with the asset.

If the book value of the asset item is determined to be higher than its recoverable future monetary amount, the impairment loss is recognised as an expense measured through profit and loss. If the impairment loss is later deemed unfounded, the impairment loss recognised earlier can be reversed by measuring it through profit and loss. The maximum amount of the impairment being reversed is the book value that the asset would have if the impairment loss was not recognised, and impairment loss on any goodwill will not be reversed.

On the balance sheet date, the Group does not have assets with an indefinite estimated economic life or goodwill, which should annually be tested for impairment using impairment tests.

Investment properties

Investment properties are properties that the Group holds in order to obtain rental income or an appreciation in the asset value, or both. The investment properties include the buildings and built and non-built land areas owned by the Group. Investment properties are originally recognised at acquisition cost and, later, at fair value. The change in the value of investment properties is recognised in the income statement. In addition to the value change of the properties that were ready and owned throughout the year, the change in the fair value of investment properties generated during the financial year is due to the recognition at fair value of properties, which were under construction during the financial year and to the increases in the acquisition cost recognised during the financial year.

According to IFRS 13, fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. When defining fair value, an assumption is made that the transaction realised to sell takes place either in the principal market or, if a principal market does not exist, in the most advantageous market to which the company has access on the measurement date. Fair value is defined using the assumptions that the market participants would use in pricing, assuming that the market participants act in accordance with their best financial interests. When defining the fair value, the market participant's ability to gain financial advantage by using the investment property in its best and most profitable use or by selling it to another market participant, which would use the investment property in its best and most profitable use, is taken into consideration. The best and most profitable use of the investment properties owned by Hoivatilat does not differ from the way they are currently used.

Hoivatilat uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The fair value of an investment property reflects the market conditions of the measurement date, considering the prices paid on properties in an equivalent location and condition and with equivalent lease terms. The fair value of investment properties is defined by an external assessor once per year, at a minimum. In 2016 and 2017, the assessments were commissioned every six months. Realia Management Oy acts as an external expert and authorised real estate appraiser. The appraiser produces a separate valuation calculation of each investment property held by the company, determining the value of the investment property. The determination of the fair value of investment properties is based on the forecast lease income from the properties, which have been discounted using the cash flow approach on the measurement date. During the financial years 2017 and 2016 the valuation wase done by the valuation experts of Realia Management Oy, who, as a rule, are authorised real estate appraisers (AKA) and real estate appraisers holding a general authorisation and approval of the Central Chamber of Commerce (KHK).

The fair value determined by an external expert is used as a fair value concerning the completed investment properties. The fair value concerning the investment properties under construction is determined using the fair value of completed investment properties considering the completion rate of the investment properties under construction. The investment properties in the phase of building permit, in which the construction work has not been started and the properties under construction with completion rate less than 10 per cent are measured at their acquisition cost.

Acquisition costs related to the construction of the investment property generated during construction, any related plot leases, interest expenses, and costs arising from employee benefits are capitalised in the investment properties under construction in the balance sheet.

The management team audits the appraisal of the properties done by an external appraiser once it has been completed. In the case of investment properties which have been evaluated in an earlier appraisal statement, the company compares the most recent valuations to those presented in the earlier appraisal statement. In the case of new investment properties, valuations are compared to the company's knowledge of recent market transactions and for example the development of market net operating income requirements are followed and compared to net operating income requirements of the Company's investment property.

The Audit Committee of the Company audits the appraisal statement done by the external appraiser and evaluates the valuation of the investment properties also based on the earlier appraisal statements delivered by the property appraiser. The Audit Committee presents the appraisal done by the property appraiser to the Board of Directors.

All investment properties are Level 3 inputs in the fair value hierarchy.

Measurement at fair value

In the consolidated financial statements, investment properties and the monetary portion of the share reward system are measured at fair value.

Asset items measured at fair value, which are categorised as hierarchy Level 1, are based on the quoted (unadjusted) prices of identical assets or liabilities in an active market, such as the quoted prices on Nasdaq Helsinki on the measurement date. The fair values of Level 2 assets or liabilities are, to a significant extent, based on inputs other than the quoted prices included in Level 1. However, they are based on information that is observable for the said asset item either directly as a price or indirectly as derived from prices. In determining the fair value of these instruments, the Group uses generally accepted valuation models in which the input is, nevertheless, to a significant extent based on verifiable market information. The fair values of Level 3 asset items are based on the inputs concerning the asset item in question, which are not based on observable market information (unobservable inputs) but, to a considerable extent, on management estimates and the use thereof in generally accepted valuation techniques.

Leases

Leases are categorised as finance leases and other leases based on the extent to which the incident risks of owning a leased asset are borne by the lessee or the lessor. Such leases in which an essential portion of the risks and rewards of owning an asset are transferred to the lessee are categorised as finance leases. If the risks and rewards related to owning the asset are not transferred, the lease is categorised as other lease. Other leases are measured through profit and loss on a straight-line basis over the lease period, unless another systematic basis better describes the actual nature of the lease.

Group as a lessor

Leases in which the risks and rewards incident to ownership remain with the lessor are processed as other leases. All of the Group's leases are other leases. Lease income is recognised in the income statement on a straight-line basis over the lease period. All lease income is recognised in the total revenue. The Group does not have any active facility leases, which would be categorised as finance leases.

Group as a lessee
Leases in which the risks and rewards incident to ownership remain with the lessor are processed as other leases. All of the Group's leases are other leases. Lease income is recognised in the income statement on a straight-line basis over the lease period.

Equity
Ordinary shares are categorised as equity. The company has one series of shares, and each share confers one vote in the Annual General Meeting. The shares have no nominal value and the share capital has no maximum amount.

Transaction costs immediately incurred by the issuance of new shares or options are presented in equity as a deduction of payments, adjusted with tax consequences. If Suomen Hoivatilat Oyj repurchases its equity instruments, the acquisition cost of these instruments is deducted from equity.

Financial assets and liabilities
The financial assets of the Suomen Hoivatilat Group have been divided into the following groups in accordance with IAS 39 Financial Instruments: Recognition and Measurement: financial assets recognised at fair value measured through profit and loss, loans and other receivables, as well as available-for-sale financial assets. The assets are categorised based on the purpose of acquiring the financial assets and liabilities and in connection with the original acquisition. The financial instruments are originally recognised at fair value entered in accounting based on the consideration received or paid. The transaction costs are included in the original book value of the financial assets and liabilities, when the item in question is not measured at fair value through profit. All purchases and sales of financial assets and liabilities are recognised on the transaction date. Derecognition of financial assets is carried out when the Group has lost its contractual right to cash flows or when it has transferred, to a considerable extent, risks and profits outside the Company.

The financial assets or liabilities recognised at fair value through profit and loss group includes such derivatives that are not processed in accordance with hedge accounting provided in IAS 39 Financial Instruments: Recognition and Measurement. Those maturing in 12 months are included in other current assets or liabilities.

The items in the group are measured at fair value, and the fair value of all investments in this group has been defined on the basis of price quotations published in the active markets or the generally accepted pricing models. Both realised and unrealised profits and losses caused by changes in the fair value and the related taxes are recognised through profit and loss for the financial year in which they are incurred.

Payments related to loans and other receivables are fixed or can be determined and they are not quoted in an active market and the Company does not hold them for trading purposes. This group includes the Group's financial assets, which have been generated by transferring money, goods or services to the debtor. They are measured at amortised cost and included in current and non-current financial assets; in the latter if they mature after more than 12 months. The Group will recognise an impairment on an individual receivable when there is objective evidence that the receivable cannot be collected in full.

Interest-bearing liabilities are recognised in the balance sheet at amortised cost using the effective interest method. Current interest-bearing liabilities include all interest-bearing liabilities maturing in less than 12 months, including commercial papers issued by the Company.

Impairment of financial assets
The Group will recognise an impairment loss on trade receivables when there is objective evidence that the receivable cannot be collected in full. The debtor's considerable financial difficulties, the probability of a bankruptcy, failure to make payments, or a payment overdue by more than 90 days are evidence of the impairment of a financial asset. The amount of an impairment loss recognised through profit and loss is determined as the difference in the book value of the receivable and the current value of the estimated future cash flows. If the amount of the impairment loss decreases during a subsequent period and the change can be objectively attributed to an event that has taken place after the recognition of the impairment loss, the recognised loss is reversed through profit and loss.

Derivative contracts
The Group uses derivative contracts to hedge primarily against interest rate risk. Interest rate derivative contracts are defined as hedging instruments for future interest rate flows, and the Group applies cash flow hedging to processing the contracts when the hedge accounting criteria in accordance with standard IAS 39 are met. The change in the fair value of a derivative contract is recognised in other comprehensive income items to the extent that the hedge is effective. The ineffective portion of the hedge is immediately recognised in financial items in the income statement. If the derivative contract used as a hedging instrument expires, is sold or prematurely terminated, but the fulfilment of the interest rate flows of the hedged loans continues to be extremely likely, the profits and losses accumulated

from interest rate swaps remain in equity and are recognised in the income statement while the hedged interest rate flows are realised in the result. If the realisation of the hedged cash flows is no longer extremely likely, the profits and losses accumulated from interest rate swaps are immediately recognised from equity to financial income and expenses in the income statement.

Borrowing costs

Borrowing costs are recognised as an expense for the financial year in which they were incurred. Borrowing costs directly attributable to the acquisition, construction or production of a 'qualifying asset' are included in the cost of the asset. The borrowing costs to be capitalised are expenses incurred by the loans withdrawn for construction projects in property development operations or expenses calculated from construction projects multiplied by the capitalisation rate, if no withdrawn loan is allocated to the construction project in question separately. The capitalisation rate is the weighted average interest rate of the interest-bearing liabilities during the Group's financial year. The capitalised borrowing costs are presented as part of the investment cash flow.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits available for withdrawal upon request, and other current, very liquid investments. The maximum maturity of items categorised as cash and cash equivalents is three months from the acquisition.

Principles of income recognition

The Group's revenue primarily consists of facility rental income from business operations. The revenue has been adjusted with indirect taxes and sales adjustment items. The Group's income is recognised when it is likely that the financial benefit related to the transaction will benefit the community. The rental income from the investment properties is recognised as income on a straight-line basis through profit and loss for the entire lease period in accordance with IAS 17.

Government grants

Government grants are recognised when it is reasonably certain that the company meets the related conditions and will receive the grants. Grants received for various development programmes are presented in other operating income. Expenses allocated to development programmes are presented in the service expenses in other operating income and in expenses incurred by employee benefits.

Employee benefits

Short-term employee benefits

Short-term employee benefits include salaries and bonuses, and they are recognised as expenses for the financial year during which the work was performed.

Post-employment benefits

The Group's personnel is covered by defined contribution plans. Payments to pension plans are recognised in the income statement in the financial period which the payment concerns.

Share-based payments

The Group has a share-based incentive system, in which payments are made in part shares and in part cash. The share portion is recognised as expenses incurred by employee benefits and in the Group's equity during the period in which the right to such payment was generated. The shares to be issued are measured at the fair value of the issue date. The cash-settled portion is recognised as expenses incurred by employee benefits during the period in which the right to such payment was generated and as debt. The debt is revalued on each balance sheet date.

Taxes

Tax expenses include current taxes based on the taxable income for the financial year, adjustments of prior year taxes, and changes in deferred taxes. Deferred taxes related to investment properties have been calculated from the difference of the fair value of the properties and the acquisition cost not deducted in taxation.

The change of deferred taxes for the financial year is measured through profit and loss. The calculation of deferred taxes is based on the corporate tax rate confirmed on the balance sheet date.

Operating profit

The Group defines operating profit as follows: operating profit is the net amount generated when other operating income is added to revenue and when expenses, depreciation and amortization and possible impairments caused by employee benefits as well as the changes in the fair value of investment properties are deducted from it. All income statement items other than those mentioned above are presented below operating profit.

Earnings per share

Earnings per share are presented as undiluted and adjusted with the dilution impact. Undiluted earnings per share are calculated using the parent company's average number of shares for the financial year. When calculating earnings per share adjusted by the dilution impact, the parent company's average number of shares has been adjusted by the assumed dilution impact of the additional shares offered as a share incentive. If the company had a share issue in the current or previous financial year, the average number of shares of the financial years have been adjusted for share issue when calculating the earnings per share.

Related party transactions

A related party is a person or entity that is related to the entity that is preparing its financial statements. The entities are related parties if one entity is controlled or jointly controlled by the reporting entity or the reporting entity has significant influence over the decision-making of the other party. The Company's related parties include key management personnel and their family members as well as companies which are controlled or jointly controlled by these persons. Key management personnel include the members of the parent company's Board of Directors as well as the CEO and CFO.

Main uncertainties in respect of estimates

When preparing the financial statements, the Group's management must exercise discretion in applying the accounting principles and make estimates and assumptions concerning the contents of the financial statements. The most significant estimates in the Group's financial statements are related to the information concerning the properties, which are used in the fair value calculation model and submitted to an external expert, who performs an appraisal of the property. Key information to be submitted to the external appraiser include property rents, expiration dates of leases, expenses that the lessor continues to be responsible for, such as the plot rent, property tax and insurance, as well as the estimated repair costs of the property. Regarding the aforementioned information, the management must make estimates on the future accumulation of property expenses and repair expenses. When making estimates and assumptions, the management has applied the best knowledge it possesses on the balance sheet date. The actual future outcome may deviate from the estimates and assumptions.

New and revised standards and interpretations to be used for future financial years

The Group has not yet adopted the following new or amended standards and interpretations that have already been issued by the IASB. The Group will adopt each of these standards and interpretations from the date of their entry into force. However, if the date of entry into force is not on the first day of the financial year, then that standard and interpretation will be adopted on the first day of the next financial year.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. It has been estimated that IFRS 9 has not significant impacts on consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. Since the Groups sales income consists mainly of rental income IFRS 9 is estimated not to have significant impact on consolidated financial statements.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5,000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The IFRS 16 standard will affect the accounting processing and presentation method in the financial statements of such land lease agreements in which the Group is a lessee. The Group is in the process of assessing the effects of the FRS 16 standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. OPERATING SEGMENTS

Historically, the Group's resource and result situation has always been assessed as one entity, which is also the basis for the Group's reporting model and administration structure. Therefore, the Group only has one operating segment to be reported on, and the segment's figures and information are consistent with the figures and information of the entire Group. Thus, the income of this operating segment consists of property rental income. The highest decision-making power in the Group rests with the CEO and the parent company's Board of Directors. In 2017, the Group had three clients whose share in the Group's external revenue exceeded the 10% limit. The share of the largest client was 33% and that of the second largest client was 22% (third 14%). In 2016, the Group had two clients whose share in the Group's external revenue was more than 10%. The share of the largest client was 42% and that of the second largest client was 19%. The increase in the relative share of the revenue accumulated from the largest client in 2016 is largely attributable to a merger of two of the Group's tenants. The Group operated only in Finland in the financial year and the preceding financial years.

2. REVENUE AND OTHER OPERATING INCOME

EUR	2017	2016
Rental income from properties	12,361,850	7,409,462
Other sales	10,942	4,566
Total	**12,372,792**	**7,414,028**

The Group's revenue in 2017 and 2016 consisted in full of rental income and other sales generated in Finland.

As a rule, fixed term leases of 12–15 years are signed for investment properties, and the leases generally include a deposit equalling the rent of three to six months. The annual rent increases are tied to the cost of living index. The tenants are responsible for the operating and maintenance costs of the properties.

Value and average maturity of the agreement portfolio

EUR	2017	2016
Value of agreement portfolio at the end of the year	316,045,753	214,218,546
Average maturity of agreement portfolio at the end of the year (years)	14.4	14.2

The value of the agreement portfolio includes the signed leases and letters of intent at the current rent levels without the index increase effect.

Expiration of leases (value of the agreement portfolio)		
EUR	**2017**	**2016**
In 2019	151,371	0
In 2024	1,291,560	1,471,029
In 2027	1,837,107	2,019,300
In 2028	8,080,785	8,797,489
In 2029	24,028,446	25,894,258
In 2030	48,444,906	47,033,106
In 2031	38,968,001	39,732,800
In 2032	81,995,701	89,270,564
In 2033	72,358,409	0
In 2034	12,597,084	0
In 2038	26,292,384	0
Total	**316,045,753**	**214,218,546**

3. TRANSFERS OF INVESTMENT PROPERTIES AND CHANGES IN FAIR VALUE		
EUR	**2017**	**2016**
Changes in the fair value of investment properties	25,085,586	14,809,103
Total	**25,085,586**	**14,809,103**

In accordance with IAS 40, investment properties are measured at fair value. The valuation of investment properties and the methods used are covered in the accounting principles and hereafter in Note 10.

4. EXPENSES OF EMPLOYEE BENEFITS AND AVERAGE NUMBER OF EMPLOYEES		
EUR	**2017**	**2016**
Salaries	-1,387,356	-1,157,949
Pension expenses – defined contribution arrangements	-226,723	-190,146
Share-based payments	-486,372	-225,435
Other personnel expenses	-54,956	-48,610
Capitalised in property acquisition costs	270,680	155,000
Total	**-1,884,728**	**-1,467,141**
Group's average number of employees	13	10

5. DEPRECIATION		
EUR	**2017**	**2016**
Intangible assets	-5,684	-5,388
Machinery and equipment	-4,386	-2,822
Total	**-10,070**	**-8,210**

6. PROPERTY MAINTENANCE COSTS AND ADMINISTRATIVE COSTS		
Property maintenance costs, EUR	**2017**	**2016**
Direct maintenance costs of investment properties, which have accumulated rental income during the financial year	-961,909	-585,690
Direct maintenance costs of investment properties, which have not accumulated rental income during the financial year	-49,770	-64,190
Total	**-1,011,679**	**-649,881**

Property maintenance costs include land area rents, property taxes, full-value indemnities of properties, property repair and maintenance costs as well as administrative costs directly allocated to limited liability housing companies.

EUR	2017	2016
Administrative costs		
Other operating expenses, which are not allocated to investment properties	-1,234,843	-794,212
Total	**-1,234,843**	**-794,212**
Auditor's fees		
Audit	-26,955	-18,622
Certificates and statements	0	-1,100
Other services	-35,024	-54,985
Total	**-61,979**	**-74,707**

7. FINANCIAL INCOME AND EXPENSES		
Financial income, EUR	**2017**	**2016**
Interest income	585	2,146
Ineffective portion of hedge accounting	0	1,376
Total	**585**	**3,522**
Financial expenses		
Interest expenses	-1,582,627	-1,050,735
- interest expenses capitalised in the properties' acquisition costs	182,904	182,022
Total	**-1,399,723**	**-868,713**

8. INCOME TAXES

EUR	2017	2016
Tax based on the taxable income of the financial year	-266,174	-140,879
Deferred taxes	-6,147,600	-3,600,226
Total	**-6,413,774**	**-3,741,105**

Indirect reconciliation calculation of tax expenses and the taxes calculated using parent company's tax rate

EUR	2017	2016
Profit before taxes	31,917,921	18,438,498
Taxes at the parent company's tax rate on the balance sheet date	-6,383,584	-3,687,700
Use of tax losses previously not recognised	5,901	584
Deferred tax assets not recognised from tax losses	-1,117	-1,931
Non-deductible expenses	-1,207	2,508
Taxes from previous periods	-3,869	288
Impact of the incentive system	-33,656	-24,738
Other items	3,758	-30,116
Taxes in the income statement	**-6,413,774**	**-3,741,105**

9. EARNINGS PER SHARE

EUR	2017	2016
Profit for the financial year belonging to the parent company's shareholders	25,504,147	14,697,393
Earnings per share, undiluted	1,05	0,75
Earnings per share, adjusted with the dilution effect	1,04	0,75
Weighted average number of shares during the financial year, undiluted	24,228,585	19,495,409
Weighted average number of shares during the financial year, diluted	24,408,357	19,618,457

Bridge calculation for earnings per share

EUR	2017	2016
Weighted average number of shares during the financial year, undiluted	24,228,585	19,495,409
Impact of the share reward system	179,772	123,048
Weighted average number of shares during the financial year, diluted	24,408,357	19,618,457

10. INVESTMENT PROPERTIES		
EUR	2017	2016
Fair value of investment properties, 1 Jan	**154,751,290**	**90,477,794**
Investments in properties under construction and in the starting phase	64,509,168	49,329,642
Other investment property investments	266,279	164,751
Deductions from divestments	2,454,138	0
Profits and losses from changes in fair value	25,085,586	14,809,103
Fair value of investment properties, 31 Dec	**247,066,462**	**154,751,290**

EUR	2017	2016
Completed investment properties	231,400,000	130,110,000
Investment properties under construction	15,007,431	24,226,731
Investment properties in the starting phase (valued at acquisition cost)	659,030	414,558
Total	**247,066,462**	**154,751,290**

100% of investment properties under construction have been rented.

The Group is under contractual obligation to complete the investment properties which are under construction or in the starting phase on the balance sheet date. The fulfilment of these obligations requires that the Group invest an acquisition cost amount of approximately EUR 45.6 million in the properties.

Investment property valuation process

Investment properties are properties that the Group holds in order to obtain rental income or an appreciation in the asset value, or both. The fair value of the investment properties is based on an appraisal performed by an external appraiser, Realia Management Oy ("Realia"). Realia has defined a market value of 114 (70) properties. Of the appraised properties, 90 (56) were completed and generated cash flow on the balance sheet date and 14 (14) were under construction. The 10 (15) properties, which had been started but had a completion rate of less than 10% on the balance sheet date, are measured at acquisition cost. Realia's statement on the appraisal of the properties is available on the Suomen Hoivatilat website at **www.hoivatilat.fi**

On 31 December 2016, the net operating income of the portfolio (NOI1) calculated using the individual properties appraised was 6.48% (6.88%). All investment properties are Level 3 inputs in the fair value hierarchy.

The portfolio net operating income (NOI1) reflects the relation between the first year's net rental income and the fair value of investment property. The portfolio net operating income is not an initial number used in the valuation of the investment property but a base value whereby different properties can be compared to each other and thus create an overview of the valuation of the portfolio or an individual property. When used in real estate market the portfolio net operating income reflects the yield required by the investor. The net operating income requirement is the most significant parameter affecting the fair value of the investment property. The effect of 1 percentage point change in the portfolio net operating income in the fair value of the investment property on the 31 of December 2017 has been presented in the table below.

Sensitivity analysis of the fair value calculation of investment properties			
	Change in the net operating income requirement		
	31 Dec 2017	**+1.0%**	**-1.0%**
Portfolio net operating income	6.48%	7.48%	5.48%
Fair value of investment property portfolio	247,066,462	214,036,186	292,151,583
Impact of the change in the yield requirement on the fair value of investment properties		-33,030,276	45,085,121

11. GROUP COMPANIES

The Group includes the parent company Suomen Hoivatilat Oyj and its wholly owned subsidiaries. At the end of the 2017 financial year, the Group included the parent company and 109 limited liability housing companies.

Company	Group's holding 31 December 2017	Group's holding 31 December 2016
Suomen Hoivatilat Oyj		
Kiinteistö Oy Espoon Hirvisuontie	100%	100%
Kiinteistö Oy Espoon Opettajantie	100%	100%
Kiinteistö Oy Espoon Vuoripirtintie	100%	100%
Kiinteistö Oy Heinolan Lähteentie	100%	100%
Kiinteistö Oy Hollolan Sarkatie	100%	100%
Kiinteistö Oy Kokkolan Vanha Ouluntie	100%	100%
Kiinteistö Oy Kotkan Loitsutie	100%	100%
Kiinteistö Oy Kouvolan Pappilantie	100%	100%
Kiinteistö Oy Kuopion Rantaraitti	100%	100%
Kiinteistö Oy Lohjan Ansatie	100%	100%
Kiinteistö Oy Mäntyharjun Lääkärinkuja	100%	100%
Kiinteistö Oy Mäntyharjun Taavetintie	100%	100%
Kiinteistö Oy Nokian Näsiäkatu	100%	100%
Kiinteistö Oy Orimattilan Suppulanpolku	100%	100%
Kiinteistö Oy Oulun Ukkoherrantie	100%	100%
Kiinteistö Oy Oulun Ukkoherrantie B	100%	100%
Kiinteistö Oy Porin Palokärjentie	100%	100%
Kiinteistö Oy Porvoon Fredrika Runeberginkatu	100%	100%
Kiinteistö Oy Porvoon Vanha Kuninkaantie	100%	100%
Kiinteistö Oy Rovaniemen Ritarinne	100%	100%
Kiinteistö Oy Ruskon Päällistönmäentie	100%	100%
Kiinteistö Oy Sipoon Satotalmantie	100%	100%
Kiinteistö Oy Ulvilan Peltotie	100%	100%
Kiinteistö Oy Uudenkaupungin Merimetsopolku A	100%	100%
Kiinteistö Oy Uudenkaupungin Merimetsopolku B	100%	100%
Kiinteistö Oy Uudenkaupungin Merimetsopolku C	100%	100%
Kiinteistö Oy Uudenkaupungin Puusepänkatu	100%	100%
Kiinteistö Oy Vantaan Mesikukantie	100%	100%
Kiinteistö Oy Varkauden Kaura-ahontie	100%	100%
Kiinteistö Oy Vihdin Koivissillankuja	100%	100%
Kiinteistö Oy Jyväskylän Haperontie	100%	100%
Kiinteistö Oy Kajaanin Erätie	100%	100%
Kiinteistö Oy Keravan Männiköntie	100%	100%
Kiinteistö Oy Espoon Fallåkerinrinne	100%	100%
Kiinteistö Oy Espoon Meriviitantie	100%	100%

Company	Group's holding 31 December 2017	Group's holding 31 December 2016
Kiinteistö Oy Espoon Tikasmäentie	100%	100%
Kiinteistö Oy Hämeenlinnan Vanha Alikartanontie	100%	100%
Kiinteistö Oy Jyväskylän Väliharjuntie	100%	100%
Kiinteistö Oy Kajaanin Menninkäisentie	100%	100%
Kiinteistö Oy Kangasalan Mäntyveräjäntie	100%	100%
Kiinteistö Oy Kirkkonummen Kotitontunkuja	100%	100%
Kiinteistö Oy Kouvolan Kaartokuja	100%	100%
Kiinteistö Oy Kouvolan Toukomiehentie B	100%	100%
Kiinteistö Oy Kouvolan Vinttikaivontie	100%	100%
Kiinteistö Oy Kuopion Sipulikatu	100%	100%
Kiinteistö Oy Lahden Vallesmanninkatu A	100%	100%
Kiinteistö Oy Lahden Vallesmanninkatu B	100%	100%
Kiinteistö Oy Laukaan Hytösenkuja	100%	100%
Kiinteistö Oy Limingan Kauppakaari	100%	100%
Kiinteistö Oy Loviisan Mannerheiminkatu	100%	100%
Kiinteistö Oy Maskun Ruskontie	100%	100%
Kiinteistö Oy Mäntsälän Liedontie	100%	100%
Kiinteistö Oy Nokian Vikkulankatu	100%	100%
Kiinteistö Oy Nurmijärven Laidunalue	100%	100%
Kiinteistö Oy Nurmijärven Vehnäpellontie	100%	100%
Kiinteistö Oy Oulun Kehätie	100%	100%
Kiinteistö Oy Oulun Paulareitti	100%	100%
Kiinteistö Oy Oulun Rakkakiventie	100%	100%
Kiinteistö Oy Paimion Kämmekkä	100%	100%
Kiinteistö Oy Pirkkalan Lehtimäentie	100%	100%
Kiinteistö Oy Porin Ojantie	100%	100%
Kiinteistö Oy Porvoon Peippolankuja	100%	100%
Kiinteistö Oy Raision Tenavakatu	100%	100%
Kiinteistö Oy Siilinjärven Sinisiipi	100%	100%
Kiinteistö Oy Tampereen Lentävänniemenkatu	100%	100%
Kiinteistö Oy Turun Kukolantie	100%	100%
Kiinteistö Oy Turun Teollisuuskatu	100%	100%
Kiinteistö Oy Turun Vakiniituntie	100%	100%
Kiinteistö Oy Turun Vähäheikkiläntie	100%	100%
Kiinteistö Oy Uudenkaupungin Salmenkatu	100%	100%
Kiinteistö Oy Vantaan Koetilankatu	100%	100%
Kiinteistö Oy Vantaan Punakiventie	100%	100%
Kiinteistö Oy Vantaan Tuovintie	100%	100%
Kiinteistö Oy Vantaan Vuohirinne	100%	100%
Kiinteistö Oy Vihdin Vanhan-Sepän tie	100%	100%
Kiinteistö Oy Ylöjärven Mustarastaantie	100%	100%
Kiinteistö Oy Ylöjärven Työväentalontie	100%	100%

Company	Group's holding 31 December 2017	Group's holding 31 December 2016
Kiinteistö Oy Euran Käräjämäentie	100%	0%
Kiinteistö Oy Hämeenlinnan Jukolanraitti	100%	0%
Kiinteistö Oy Iisalmen Eteläinen puistoraitti	100%	0%
Kiinteistö Oy Iisalmen Kangaslammintie	100%	0%
Kiinteistö Oy Jyväskylän Mannisenmäentie	100%	0%
Kiinteistö Oy Kaarinan Nurminiitynkatu	100%	0%
Kiinteistö Oy Kajaanin Valonkatu	100%	0%
Kiinteistö Oy Kalajoen Hannilantie	100%	0%
Kiinteistö Oy Keuruun Tehtaantie	100%	0%
Kiinteistö Oy Kuopion Amerikanraitti 10	100%	0%
Kiinteistö Oy Lahden Jahtikatu	100%	0%
Kiinteistö Oy Lahden Piisamikatu	100%	0%
Kiinteistö Oy Lappeenrannan Orioninkatu	100%	0%
Kiinteistö Oy Mikkelin Väänäsenpolku	100%	0%
Kiinteistö Oy Mikkelin Ylännetie 10	100%	0%
Kiinteistö Oy Mikkelin Ylännetie 8	100%	0%
Kiinteistö Oy Nurmijärven Ratakuja	100%	0%
Kiinteistö Oy Paimion Mäkiläntie	100%	0%
Kiinteistö Oy Pihtiputaan Nurmelanpolku	100%	0%
Kiinteistö Oy Pirkkalan Pereensaarentie	100%	0%
Kiinteistö Oy Porin Koekatu	100%	0%
Kiinteistö Oy Raahen Palokunnanhovi	100%	0%
Kiinteistö Oy Rovaniemen Matkavaarantie	100%	0%
Kiinteistö Oy Sastamalan Tyrväänkyläntie	100%	0%
Kiinteistö Oy Siilinjärven Risulantie	100%	0%
Kiinteistö Oy Sipoon Aarrepuistonkuja	100%	0%
Kiinteistö Oy Sipoon Aarretie	100%	0%
Kiinteistö Oy Tornion Torpin Rinnakkaiskatu	100%	0%
Kiinteistö Oy Turun Lukkosepänkatu	100%	0%
Kiinteistö Oy Uudenkaupungin Merilinnuntie	100%	0%
Kiinteistö Oy Varkauden Savontie	100%	0%
Kiinteistö Oy Vihdin Pengerkuja	100%	0%

The address of all Group companies is Lentokatu 2, 90460 Oulunsalo, Finland.

12. DEFERRED TAXES

Deferred tax assets, EUR	2017	2016
From transaction costs recognised in equity in the share issue	247,646	125,621
From other comprehensive income items	39,319	61,938
From the share-based incentive system	90,817	27,199
Total	**377,783**	**214,758**
Deferred tax liabilities		
From measuring investment properties at fair value	14,203,407	8,213,963
Other items	226,260	104,812
Total	**14,429,667**	**8,318,775**

13. TRADE RECEIVABLES AND OTHER RECEIVABLES

EUR	2017	2016
Trade receivables	140,359	109,780
Accrued income	482,920	283,319
Other receivables	111,487	11,749
Tax receivables based in the taxable income for the financial year	0	31,900
Total	**734,766**	**436,748**

Trade receivables on 31 December 2016 do not include overdue trade receivables. No credit losses were recognised on trade receivables during financial years 2015 and 2016.

14. CASH AND CASH EQUIVALENTS

EUR	2017	2016
Cash and bank accounts	9,844,945	4,329,328
Total	**9,844,945**	**4,329,328**

15. EQUITY

Share capital

Suomen Hoivatilat Oyj has one series of shares. On 31 December 2017, the company's share capital was EUR 80,000 and the number of shares was 20,788,859. The company did not hold any own shares. Each share confers one vote in the Annual General Meeting. The share does not have a nominal value. All shares issued have been paid in full.

Invested non-restricted equity reserve

he invested non-restricted equity reserve includes other equity investments and share subscription to the extent that it is not recognised in share capital by a specific decision.

Authorisations

Within the limits of the authorisation received from the Annual General Meeting on 18 February 2016, the company's Board of Directors can issue option rights or other specific rights which enable the subscription of a maximum of 193,092 company shares (the original authorisation was 221,892 shares, of which 28,800 have been used). The authorisation given to the Board of Directors by the Annual General Meeting will be in effect until 31 December 2018.

Dividends

In 2017, the dividend distributed was EUR 0.10 per share, totalling EUR 2,078,885.90 The number of shares entitling to the dividend paid in 2017 was 20,788,859. In 2016, the dividend distributed was EUR 0.07 per share, totalling EUR 1,033,671. The number of shares entitling to the dividend paid in 2015 was 9,336,951, taking the share split into consideration.

After the end date of the reporting period, Suomen Hoivatilat Oyj's Board of Directors has proposed that a dividend of EUR 0.13 per share be distributed, totalling EUR 3,287,551.67.

Changes in the number of shares and the corresponding changes in equity

	Number of sharesl	Share capital	Invested non-restricted equity reserve	Total
1 Jan 2016	**5,162,317**	**50,000**	**23,005,805**	**23,055,805**
Option subscriptions	6,036	0	60	60
Splitting shares by means of a share issue without a consideration	10,336,706			0
Increase from reserves	0	30,000	-30,000	0
Share issue	5,255,000	0	16,803,741	16,803,741
Transaction costs of the share issue with the adjusted impact of deferred taxes			-669,977	-669,977
Option subscriptions	28,800	0	288	288
31 Dec 2016	**20,788,859**	**80,000**	**39,109,917**	**39,189,917**
1 Jan 2017	**20,788,859**	**80,000**	**39,109,917**	**39,189,917**
Share issue	4,500,000		31,500,000	31,500,000
Transaction costs of the share issue with the adjusted impact of deferred taxes			-889,406	-889,406
31 Dec 2017	**25,288,859**	**80,000**	**69,720,511**	**69,800,511**

16. SHARE-BASED PAYMENTS

Share reward system 2015

In accordance with the authorisation issued by the Annual General Meeting on 8 April 2014, the Board of Directors of Suomen Hoivatilat Oyj decided, on 12 December 2014, on the implementation of a share reward system for the management and key personnel as of the beginning of 2015. In accordance with the conditions of the share reward system 2015 approved by the Board of Directors on 10 February 2015, the system consists of three performance periods covering the calendar years 2015–2017. The target group of the system includes the Group's key personnel designated by the Board of Directors for each performance period. The system participants have the opportunity to earn company shares as a reward for meeting the earnings objectives set by the Board of Directors for each performance period separately. The Board of Directors decides separately on the maximum reward of each participant for each performance period. In addition to the net number of the shares to be subscribed for, the reward includes a monetary portion, which covers the taxes and tax-like payments incurred to the participant by the reward. However, the maximum monetary amount to be paid is an amount equalling the fair value of the shares. The reward is paid to the participants no later than by the end of April of the year following each performance period.

Share reward system 2015, calendar years 2015 and 2016

On 10 February 2015, the Board of Directors of Suomen Hoivatilat Oyj decided on the criteria of performance periods 2015 and 2016 of the share reward system 2015. The reward criteria of performance period 2015 were tied to the Group's net assets on 31 December 2015. The reward criteria of performance period 2016 was the trading of Suomen Hoivatilat Oyj's shares on Nasdaq OMX's First North no later than 31 December 2016. The maximum reward quantity of performance period 2015 was 35,700 shares, of which a total of 18,108 shares were paid as a reward. The maximum reward quantity of performance period 2015 was 28,800 shares, of which a total of 28,800 shares were paid as a reward to the Company's CEO and CFO. The shares from performance periods 2015 and 2016 may not be transferred, pledged or otherwise used before the vesting period ends on 31 December 2018. If the employment or service agreement of the person who received the reward ends during the vesting period, the shares received as a reward must be returned to the Company without compensation.

Share reward system 2015, calendar years 2016–2017

On 26 April 2016, the Board of Directors of Suomen Hoivatilat Oyj decided on the criteria of performance period 2015–2017 of the share reward system 2015 The total number of shares to be paid as the reward is tied to the company's performance measured by the total shareholder return (TSR). The maximum reward quantity for performance period 2016–2017 is 180,000 shares. The shares from performance periods 2016–2017 may not be transferred, pledged or otherwise used before the vesting period ends on 31 December 2019. If the employment or service agreement of the person who received the reward ends during the vesting period, the shares received as a reward must be returned to the Company without compensation.

Parameters used in the recognition of the share reward programme

	2016–2017	2016	2015
Share issuance date	26.4.2016	10.2.2015	15.2.2015
Maximum number of shares to be given as a reward	180,000	28,800	35,700
Share value, EUR	3,63	2,19	2,19
Performance period	1 Jan 2016–31 Dec 2017	1 Jan 2015–31 Dec .2016	1 Jan 2015–31 Dec 2015
Vesting period ends	31 Dec 2019	31 Dec 2018	31 Dec 2018
Estimated success rate, %	80.0%	100.0%	50.7%
Actual success rate, %	-	-	-
Debt related to the share reward programme on the balance sheet date	454,085	0	0

The portion of share rewards measured through profit and loss is presented in Note 4. The shares received as a reward are technically recognised at the subscription price of EUR 0.01 per share after the performance period. The impact of these share options has been taken into consideration when calculating the diluted key figure per share in Note 9.

17. FINANCIAL LIABILITIES

Non-current financial liabilities measured at amortised cost, EUR	2017	2016
Overdraft facility accounts	0	1,660,018
Loans from financial institutions	101,156,352	65,203,973
Total	**101,156,352**	**66,863,991**

Current financial liabilities measured at amortised cost	2017	2016
Loans from financial institutions	8,901,139	5,044,282
Total	**8,901,139**	**5,044,282**

The Group's bank loans have a variable interest rate. The Group's average interest rate on 31 December 2017 was 1.88% (1.69% in 2016). The amounts of the Group's variable-rate loans and their repricing periods in accordance with the agreement are as follows:

	2017	2016
Less than 3 months	0	369,302
3–6 months	29,237,969	32,472,951
6–12 months	80,816,521	39,066,021
Total	**110,054,490**	**71,908,274**

18. TRADE PAYABLES AND OTHER LIABILITIES

Current liabilities measured at amortised cost, EUR	2017	2016
Advances received	116,118	67,900
Trade payables	2,171,281	3,268,497
Accrued expenses	1,814,171	931,966
Other liabilities	149,838	121,595
Total	**4,251,408**	**4,389,958**

Current liabilities recognised at fair value through profit and loss	2017	2016
Derivative contracts – in hedge accounting	196,567	309,692
Total	**196,567**	**309,692**

19. MANAGEMENT OF FINANCIAL RISKS

By managing financial risks, the Group aims to secure effective and competitive funding for its operations and reduce the negative impact of the fluctuations in the financial market on its operations. In order to manage financial risks, the Group uses a broad circle of financers, diverse selection of financial instruments and maturity division as well as maintains a sufficient capital adequacy ratio. The goal of refinancing risk management is to ensure that the Group's loan portfolio and the unused credit facilities are diverse and large enough from the perspective of the loan repayment schedule, investments and any other funding needs. Suomen Hoivatilat only uses derivative instruments to reduce or eliminate the financial risks in the balance sheet. The instability of the financial market may impact the availability of growth funding and refinancing as well as financial expenses in the future.

Interest rate risk

The Group's most important financial risk is the interest rate risk targeting the loan portfolio. The Company has an interest rate hedging policy confirmed by the Board of Directors. The objective of managing interest rate risks is to reduce the negative impact of the fluctuation of the market rates on the Company's result, financial position and cash flow. According to the interest rate hedging policy, 30–50% of the Group's loan portfolio is hedged by interest rate swaps so that the average interest rate tying period is two (2) years +/- six (6) months. At the end of 2015, the company signed instalment-free interest rate swaps with a nominal value of EUR 16 million, which will mature in 5 years. In addition, at the end of 2016, the Company signed instalment-free interest rate swaps with a nominal value of EUR 10 million, which will become effective in two years and mature in 5 years. These interest rate swaps will be used to hedge both current loans and loans to be withdrawn in the future, and their purpose is to hedge future variable-rate loans generally against interest rate risk. In accordance with the agreement, the Company pays the counterparty a fixed annual interest rate and receives variable Euribor interest rate. More detailed information on the nominal and market values of interest rate swaps on the balance sheet date is available below in Note 20 of the consolidated financial statements.

The interest sensitivity of the loan portfolio of Suomen Hoivatilat at the end of 2017 is indicated by the fact that a change of one percentage point in the money market interest rates would increase the annual interest rate expenses by EUR 0.9 million (in 2016, by EUR 0.6 million). Of the interest-bearing loans, 0.0% is tied to the under 3-month Euribor rate and 100% is tied to the 3–12-month Euribor rate. At the end of 2017, 37.3% of the Company's interest-bearing liabilities had been hedged by interest rate swaps, and the interest rate tying period, which describes the average interest rate fixing date, was 1.97 years. The remaining loan period of interest-bearing liabilities weighted with capital was 8.2 years.

Liquidity and counterparty risk

The Group's management assesses and continuously monitors the amount of funding required by the operations in order to ensure that the Group's liquid assets are sufficient for funding the operations and repaying maturing loans. Counterparty risk of funding is generated when the contracting party in a funding transaction is not necessarily capable of fulfilling its obligations. In order to manage the liquidity and counterparty risk, Suomen Hoivatilat uses a broad circle of financers and maintains such capital adequacy as it deems appropriate. The Group's long-term funding has been organised through several Finnish financial institutions. For short-term funding needs, the Group has checking accounts with overdraft facilities.

On the balance sheet date, Suomen Hoivatilat had at its disposal overdraft facilities of EUR 4,000,000, of which EUR 0 were in use.

Loan covenants

The Company's loan arrangements include regular collaterals and covenants. The company uses collaterals in the loan arrangements and its loan arrangements include regular prohibitions concerning pledges. On the balance sheet date, the Group had EUR 110.1 million of interest-bearing loans, in which the loan capital of EUR 23.0 million contains covenants related to the location of properties, the loan-to-value ratio ("LTV") and diversification of tenants. Breaking covenants may result in the bank requiring additional amortisation of debt in order to rectify the situation or, alternatively, cancelling all bonds for immediate repayment.

Exchange rate risk

The properties owned by and the business operations of Suomen Hoivatilat are located in Finland, and thus the Group is not exposed to exchange rate risk.

Credit risk

The management of Suomen Hoivatilat Group's credit risk focuses on management of customer risks. Customers' creditworthiness is assessed before leases are signed, and a deposit equalling the rent of 3–6 months is typically included in new leases. Any overdue receivables are first subjected to internal collection measures. If they fail to produce results, the collection of the overdue receivable is handed over to a specialised outsourcing partner.

The Group does not have significant receivables that would generate uncertainty in terms of collection. The Group does not have overdue trade receivables, and credit losses have not been recognised on receivables in the financial year or for the previous financial year.

Maturity of repayments of financial liabilities and of financial expenses

	Cash flow based on agreement					
31 Dec 2017, EUR	Less than 1 year	1–2 year	2–5 year	More than 5 year	Total	Balance sheet value
Bank loans	10,597,788	9,994,322	30,709,318	69,554,904	120,856,332	110,057,490
Interest rate derivatives	91,040	519,440	718,467	0	1,328,947	196,567
Trade payables and other liabilities	2,437,237				2,437,237	2,437,237
Total	**13,126,065**	**10,513,762**	**31,427,785**	**69,554,904**	**124,622,516**	**112,691,294**

31 Dec 2016, EUR	Less than 1 year	1–2 year	2–5 year	More than 5 year	Total	Balance sheet value
Bank loans	6,236,282	7,366,807	21,391,126	43,976,011	78,970,226	71,908,274
Interest rate derivatives	81,280	81,280	418,113	179,400	760,073	309,692
Trade payables and other liabilities	3,457,992				3,457,992	3,457,992
Total	**9,775,554**	**7,448,087**	**21,809,240**	**44,155,411**	**83,188,291**	**75,675,958**

31 Dec 2017 Interest rate swaps	**Weighted maturity**	**Nominal value**	**Fair value**
Interest rate swaps	4.15	41, 000,000	-196,567

31.12.2016 Interest rate swaps	**Weighted maturity**	**Nominal,- value**	**Fair, value**
Interest rate swaps	4,.8	26,000,000	-309,692

Required rate of return risk in the market related to investment properties

Changes in the rates of return in the market may considerably impact the Company's result development through the fair value of the investment properties. As the required rates of return in the market increase, the fair values of properties decrease, and vice versa. Value changes either decrease or increase the company's operating profit and net result. Changes in the required rates of return in the market do not have a direct impact on the company's revenue, operating result or cash flow. However, the negative value change of investment properties may increase the LTV key figure so that the covenant condition of some loan agreements is realised, which might result in a need to make additional repayments for these loans or to repay the liabilities in full.

Management of capital

The objective of capital management is to maintain the Group's optimal capital structure, which helps the company ensure the regular prerequisites of business operations and grow shareholder value in the long term. The management and Board of Directors monitor the company's capital structure and liquidity development. The objective of monitoring is to ensure the Company's liquidity and the flexibility of the capital structure in order to implement the growth strategy and dividend distribution policy. The managed capital consists of equity as shown in the consolidated balance sheet, and its structure can be affected by means of funds from operations, dividend distribution and share issues.

The Group monitors the development of its capital structure by means of the share of equity in the total capital (equity ratio). At the end of financial year 2017, equity ratio was 50.0% (46.8% in 2016).

20. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The table shows the fair values and book values of each financial asset and liabilities item, which correspond to the values in the consolidated balance sheet. The table also shows the hierarchy levels of the fair values.

2017	Book value	Fair value	Fair value hierarchy
Financial assets			
Loans and other receivables			
Current			
Trade receivables	140,359	140,359	
Other receivables	594,407	594,407	
Cash and cash equivalents	9,844,945	9,844,945	
Financial assets, total	**10,579,710**	**10,579,710**	
Financial liabilities			
Measured at amortised cost			
Non-current			
Bank loans	101,156,352	101,156,352	2
Current			
Bank loans	8,901,139	8,901,139	2
Trade payables and other liabilities	2,437,237	2,437,237	
Measured at fair value			
Current			
Interest rate swaps – in hedge accounting	196,567	196,567	2
Financial liabilities Total	**112,691,294**	**112,691,294**	

2016	Book value	Fair value	Fair value hierarchy
Financial assets			
Loans and other receivables			
Current			
Trade receivables	109,780	109,780	
Other receivables	326,968	326,968	
Cash and cash equivalents	4,329,328	4,329,328	
Financial assets, total	**4,766,076**	**4,766,076**	
Financial liabilities			
Measured at amortised cost			
Non-current			
Bank loans	66,863,991	66,863,991	2
Current			
Bank loans	5,044,282	5,044,282	2
Trade payables and other liabilities	3,457,992	3,457,992	
Measured at fair value			
Current			
Interest rate swaps – in hedge accounting	309,692	309,692	2
Financial liabilities Total	**75,675,958**	**75,675,958**	

21. ADJUSTMENTS OF CASH FLOWS FROM OPERATIONS

Non-cash transactions and other adjustments, EUR	2017	2016
Depreciation	10,070	8,210
Share-based payments	168,282	123,690
Changes in the fair value of investment properties	-25,085,586	-14,809,103
Transfers of investment properties	0	0
Total	**-24,907,234**	**-14,677,203**

22. OTHER LEASES

Group as a lessor

Information concerning the investment properties leased out by the Group is provided in Note 2.

Group as a lessee

The Group's leases mainly consist of land lease agreements and leases of facilities used by the parent company.

The lease period in the land lease agreements is typically 30–50 years. Facility leases are in effect until further notice and their period of notice is 3–4 months. In addition, the Group has leased office equipment and vehicles with leases of 3–4 years. The land lease agreements and facility leases include an index clause.

Minimum rents payable based on non-cancellable other leases		
EUR	2017	2016
Leasing liabilities		
Within one year	44,494	49,584
In one to five years	25,413	45,144
In more than five years	0	0
Leasing liabilities, total	**69,907**	**94,729**
Land lease liabilities		
Within one year	677,738	496,882
In one to five years	2,710,951	1,987,528
In more than five years	24,955,817	19,163,473
Land lease liabilities, total	**28,344,505**	**21,620,885**
Leasing and lease liabilities		
Within one year	722,232	546,467
In one to five years	2,736,363	2,032,673
In more than five years	24,955,817	19,136,475
Leasing and land lease liabilities, total	**28,414,412**	**21,715,614**

23. COLLATERAL PROVIDED, CONTINGENT LIABILITIES AND OTHER LIABILITIES

Property mortgages, EUR	2017	2016
Loans from financial institutions	110,057,490	71,908,274
Mortgages provided	170,837,163	115,369,500
Mortgages total	**170,837,163**	**115,369,500**

Pledged property shares	2017	2016
Pledged investment properties	90,104,821	54,060,000
Pledges total	**90,104,821**	**54,060,000**

Other liabilities

Audit obligation related to value added tax on property investments

Suomen Hoivatilat Oyj's subsidiary Kiinteistö Oy Siilinjärven Sinisiipi is obligated to audit the value added tax deductions it has made on a property investment completed in 2012, if the taxable use of the property decreases during the audit period. The last audit year is 2021. The deducted value added tax is EUR 169,239.64. The return liability is EUR 67,696, at a maximum. In addition, Suomen Hoivatilat Oyj's subsidiaries Kiinteistö Oy Mäntyharjun Lääkärinkuja and Kiinteistö Oy Uudenkaupungin Merimetsopolku A are obligated to audit the value added tax deductions they have made on property investments made in 2017. The last audit year for both is 2026. Kiinteistö Oy Mäntyharjun Lääkärinkuja's deducted value added tax is EUR 697,858.04 and the return liability is EUR 628,072, at a maximum. Kiinteistö Oy Uudenkaupungin Merimetsopolku A's deducted value added tax is EUR 272,707.54 and the return liability is EUR 245,437, at a maximum.

24. RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the entity that is preparing its financial statements. The entities are related parties if one entity is controlled or jointly controlled by the reporting entity or the reporting entity has significant influence over the decision-making of the other party. The Company's related parties include the subsidiaries, members of the Board of Directors, CEO, CFO and their immediate family and the controlled companies. In addition, the related parties include Partnera Oy, which owns 18.9% of the share capital of Suomen Hoivatilat Oyj through Nurture Property Holding Oy and Nurture Real Estate Holding Oy, both of which it owns.

Rakennusliike Lapti Oy and Rakennusliike Lehto construction companies are among the Group's construction partners. Timo Pekkarinen, member of Suomen Hoivatilat Oyj's Board of Directors, is the managing director, Board member and shareholder of Rakennusliike Lapti Oy. Pertti Huuskonen, Chairman of the Board of Directors of Suomen Hoivatilat Oyj is the Chairman of the Board of Directors and a shareholder of Rakennusliike Lehto Oy's parent company Lehto Group Oyj.

Business transactions with external related party companies, EUR	2017	2016
Construction contracts invoiced by Rakennusliike Lapti Oy	26,029,035	23,275,588
Construction contracts invoiced by Rakennusliike Lehto Oy	1,003,962	1,387,802
Group's trade payables to Rakennusliike Lapti Oy 31 Dec	1,495,797	1,744,000
Group's trade payables to Rakennusliike Lehto Oy 31 Dec	0	1,387,802

Management remuneration and employee benefits

The management key employees are the Board of Directors and the CEO. In financial years 2017 and 2016, the Group did not have a management team. The management has been nominated after the end of the financial year.

CEO's remuneration and other short-term employee benefits, EUR	2017	2016
Salaries and fringe benefits	197,897	155,176
Performance-related pay	84,000	84,800
Share rewards	0	221,888
Total	**281,897**	**461,864**

The CEO's retirement age and pension are determined in accordance with the general regulations, and the TyEL pension expenses are paid on an accrual basis. The CEO's period of notice is six months and the severance pay equals six months' pay in addition to the monthly compensation during the period of notice.

Management team benefits, EUR	2017	2016*
Salaries and fringe benefits	523,049	-
Share rewards	0	-
Total	**523,049**	**-**

* The management team was named in the beginning of 2017

The Annual General Meeting held on 23 February 2017 resolved to pay monthly compensation to the members of the Board of Directors as follows: EUR 2,500 to the Chairman of the Board and EUR 1,250 to each member of the Board. In addition to the annual compensation, the Board members are paid a meeting attendance compensation of EUR 600 per meeting and the Chairman of the Board is paid EUR 1,200 per meeting, and the Chairman of each Committee is paid EUR 600 and the Committee members are paid EUR 400 per Committee meeting. An increase of 150% applies if the travel time to attend a meeting is more than three hours.

Board members	2017	2016
Pertti Huuskonen, Chairman	47,500	42,500
Timo Pekkarinen	21,300	23,150
Reijo Tauriainen	27,500	18,950
Mammu Kaario	26,000	16,650
Satu Ahlman (Board member since 23 February 2017)	22,400	0
Kristiina Hautakangas (Board member until 23 February 2017)	2,100	17,850
Jani Nikko (Board member 17 March 2015–18 February 2016)	0	2,800
Total	**146,800**	**121,900**

Shareholding of Board members, CEO and management team	2017	2016
CEO	292,515	292,515
Board	1,475,951	1,645,882
Management team	63,117	-
Total	**1,831,583**	**1,938,397**

25. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no relevant events after the reporting period.

PARENT COMPANY'S INCOME STATEMENT

PARENT COMPANY'S INCOME STATEMENT			
EUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
TOTAL REVENUE	1	**12,716,822,32**	**7,618,086,35**
Other operating income	2	344,532.78	106,679.16
Transfers of investment properties and changes in fair value	3	29,472,600.81	17,737,442.97
Personnel expenses			
Salaries, wages and remuneration	4	-2,442,344.96	-1,157,949.29
Indirect personnel expenses			
Pension expenses	4	-226,722.76	-190,146.10
Other personnel expenses	4	-54,955.99	-48,610.31
Total		**-2,724,023.71**	**-1,396,705.70**
Depreciation and impairment losses			
Depreciation according to plan	6	-511,053.59	-217,090.19
Total		**-511,053.59**	**-217,090.19**
Other operating expenses	5	-10,474,663.58	-6,923,094.68
OPERATING PROFIT (LOSS)		**28,824,215.03**	**16,925,317.91**
Financial income and expenses	7		
Other interest and financial income			
From Group companies		2,135,850.18	1,608,008.93
From others		312.00	2,817.84
Interest and other financial expenses			
From others		-147,247.09	-73,524.70
Total		**1,988,915.09**	**1,537,302.07**
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		**30,813,130.12**	**18,462,619.98**
Appropriations			
Increase (-) / decrease (+) in depreciation difference		-3,299.03	-4,689.96
Total		**-3,299.03**	**-4,689.96**
Income taxes			
Taxes for the financial year	8	-272,459.29	-141,301.37
Deferred taxes	8	-5,894,520.16	-3,547,488.59
Total		**-6,166,979.45**	**-3,688,789.96**
PROFIT (LOSS) FOR THE FINANCIAL YEAR		**24,642,851.64**	**14,769,140.06**

PARENT COMPANY'S BALANCE SHEET FAS

PARENT COMPANY'S BALANCE SHEET FAS			
EUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights	9	9,150.00	13,399.97
Other expenses with long-term effects	9	1,243,097.84	628,753.15
Total		**1,252,247.84**	**642,153.12**
Property, plant and equipment			
Machinery and equipment	9	32,971.10	21,723.37
Total		**32,971.10**	**21,723.37**
Investments			
Holdings in Group companies	11	239,413.34	239,413.34
Receivables from Group companies	10	73,020,274.47	41,934,073.28
Total		**73,259,687.81**	**42,173,486.62**
NON CURRENT ASSETS TOTAL		**74,544,906.75**	**42,837,363.11**
CURRENT ASSETS			
Receivables			
Non-current			
Receivables from Group companies	11	59,224,730.64	39,042,730.64
Total		**59,224,730.64**	**39,042,730.64**
Current			
Trade receivables		301,558.78	115,979.59
Receivables from Group companies	11	10,832,564.52	4,558,399.07
Other receivables	12	99,946.10	11,722.19
Accrued income	12	239,682.27	123,629.45
Total		**11,473,751.67**	**4,809,730.30**
Cash in hand and at banks		**3,015,392.26**	**230,260.38**
Current assets total		**73,713,874.57**	**44,082,721.32**
ASSETS TOTAL		**148,258,781.32**	**86,920,084.43**

PARENT COMPANY'S BALANCE SHEET FAS

EUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
LIABILITIES			
EQUITY			
Share capital	13	80,000.00	80,000.00
Invested non-restricted equity reserve	13	71,279,894.19	39,779,894.19
Retained earnings/losses	13	33,763,724.69	21,073,470.54
Profit/loss for the financial year	13	24,642,851.64	14,769,140.06
Equity total		**129,766,470.52**	**75,702,504.78**
ACCUMULATED APPROPRIATIONS			
Depreciation difference		8,845.65	5,546.62
Total		**8,845.65**	**5,546.62**
DEBT CAPITAL			
Non-current			
Loans from financial institutions	17	244,778.00	1,660,018.48
Total		**244,778.00**	**1,660,018.48**
Current			
Loans from financial institutions		3,267.00	
Advances received		105,317.60	67,900.00
Trade payables		98,835.45	40,631.61
Liabilities to Group companies	15	1,928,985.06	551,859.65
Deferred tax liabilities	16	14,182,082.10	8,287,561.94
Other liabilities		127,664.70	122,682.91
Accrued expenses	17	1,792,535.24	481,378.44
Total		**18,238,687.15**	**9,552,014.55**
Debt capital total		**18,483,465.15**	**11,212,033.03**
LIABILITIES TOTAL		**148,258,781.32**	**86,920,084.43**

PARENT COMPANY'S CASH FLOW STATEMENT FAS

PARENT COMPANY'S CASH FLOW STATEMENT FAS			
EUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flow from operations			
Profit before taxes		30,809,831.09	18,457,930.02
Adjustments			
Depreciation according to plan		511,053.59	217,090.19
Financial income and expenses		-1,988,915.09	-1,537,302.07
Other adjustments	17	-29,469,301.78	-17,732,753.01
Cash flow before change in working capital		-137,332.19	-595,034.87
Change in working capital			
Current non-interest bearing operating receivables increase (-) / decrease (+)		-10,403,203.98	-4,463,722.44
Increase (+) / decrease (-) in current non-interest-bearing liabilities		8,686,672.60	4,381,384.74
Cash flow from operations before financial items and taxes		**-1,853,863.57**	**-833,989.37**
Paid interest and payments from other financial expenses of operations		-147,247.09	-73,524.70
Interest received from operations		312.00	2,817.84
Direct taxes paid		-291,946.66	-99,197.45
Cash flow from operations (A)		**-2,292,745.32**	**-847,276.89**
Cash flow from investment activities			
Investments in tangible and intangible assets		-1,132,396.04	-849,416.56
Investments in other investments		-1,613,600.38	-82,987.60
Loans granted	10	-20,182,000.00	-19,649,083.76
Capital gain from other investments		0.00	0.00
Cash flow from investment activities (B)		**-22,927,996.42**	**-20,581,487.92**
Cash flow from financing activities			
Equity increase through share issue	12	31,500,000.00	16,804,089.16
Withdrawals of long-term loans	16	248,045.00	1,660,018.48
Repayments of long-term loans		-1,663,285.48	0.00
Dividends paid	12	-2,078,885.90	-1,033,670.60
Cash flow from financing activities (C)		**28,005,873.62**	**17,430,437.04**
Change in cash and cash equivalents (A + B + C), increase (+) / decrease (-)		**2,785,131.88**	**-4,154,944.56**
Cash and cash equivalents at the beginning of the financial year		230,260.38	4,385,204.94
Cash and cash equivalents at the end of the financial year		3,015,392.26	230,260.38

PARENT COMPANY'S NOTES TO THE FINANCIAL STATEMENTS

Valuation and amortisation principles
The company's non-current assets have been measured at acquisition cost less depreciation according to plan.

The depreciation periods are:

Intangible right	5 years, straight-line depreciation
Other expenses with long-term effects	3 years, straight-line depreciation
Machinery and equipment	10 years, straight-line depreciation

Valuation of investment properties
The Board of Directors of Hoivatilat Oyj has decided to change its method of producing financial statements so that investment properties (whose ownership is arranged in the company form) are measured at fair value. The change of accounting method is based on section 5.2b of the Accounting Act and on statement 2016/1949 of the Accounting Board. According to the earlier practice, investment properties, i.e. the shares of real estate companies, were measured at acquisition cost. The effect of the change of accounting principles on the earlier reported retained earnings of the parent company is presented on note 13.

Following the change of accounting methods, the measurement principles of investments properties are the same in the financial statements of the parent company and in the consolidated financial statements. The invesment properties are measured at fair values based on IAS 40. The methods used in valuation of the investment properties are presented in more details in note 10 of the Group notes and later in note 10 of the parent company's notes.

Deferred taxes
The change in deferred taxes for the financial year is recorded in profit or loss. The tax rate effective on the financial reporting date has been used in calculation of the deferred taxes.

Valuation of financial instruments
Financial assets are measured at acquisition cost or the probable transfer price, whichever is lower. The Company hedges against changes in the interest rate level in accordance with the hedging policy defined by the Company's Board of Directors. According to the interest rate hedging policy, 30–50% of the Group's loan portfolio is hedged by interest rate swaps so that the average interest rate tying period is two (2) years +/- six (6) months. On 31 December 2017, the parent company had four (4) interest rate swaps, with the total equity of EUR 41,000,000. The fair value of the interest rate swaps was EUR -196,567 on 31 December 2017. The interest rate swaps have not been recognised in the balance sheet, since the Group applies hedge accounting to interest rate swaps and the hedging is effective.

Amortisation of income
For the most part, the Company's revenue consists of rental income from investment properties. Rental income and other items included in revenue are recognised on an accrual basis.

1. TOTAL REVENUE		
EUR	2017	2016
Rental income from properties	12,361,849.87	7,409,462.35
Sales to Group companies	344,030.12	204,750.00
Other sales	10,942.33	3,874.00
Total	**12,716,822.32**	**7,618,086.35**

Rental income from investment properties consisted of the rental income of day care centres and nursing homes located in Finland. The rest of revenue consisted of other sales to Finland.

2. OTHER OPERATING INCOME		
EUR	2017	2016
Profits from transfers of properties	0.00	0.00
Other operating income	344,532.78	106,679.16
Total	**344,532.78**	**106,679.16**

3. CHANGE IN FAIR VALUE OF THE INVESTMENT PROPERTIES		
EUR	**2017**	**2016**
Changes in fair value of the investment properties	29 472 600,81	17 737 442,97
Total	**29 472 600,81**	**17 737 442,97**

The investment properties are measured at fair value based on section 5.2b of the Accounting Act. The methods used in valuation of the investment properties are presented in more details in note 10 of the parent company's notes.

4. INFORMATION CONCERNING PERSONNEL AND RELATED PARTIES		
EUR	**2017**	**2016**
Average number of personnel	13	10
Salaries and other remuneration of the CEO	-281,896.89	-461,863.89
Salaries and other remuneration of the management board	-523,049.00	-
Salaries and other remuneration of the Board of Directors	-146,800.00	-121,900.00
Amortisation of the cash contribuiton of the incentive programme	-1,097,685.00	0.00
Other salaries and remuneration	-392,914.07	-574,185.40
Pension insurance payments	-226,722.76	-190,146.10
Other personnel expenses	-54,955.99	-48,610.31
Total	**-2,724,023.71**	**-1,396,705.70**

5. OTHER OPERATING EXPENSES		
EUR	**2017**	**2016**
Maintenance charges and financing contributions paid to Group companies	-9,123,290.29	-6,081,607.46
Other operating expenses	-1,351,373.29	-841,487.22
Total	**-10,474,663.58**	**-6,923,094.68**
Auditor's fees	**2017**	**2016**
Audit	-26,955	-18,622
Certificates and statements	0	-1,100
Other services	-35,024	-54,985
Total	**-61,979**	**-74,707**

6. DEPRECIATION AND IMPAIRMENT LOSSES		
EUR	**2017**	**2016**
Depreciation according to plan	-511,053.59	-217,090.19
Total	**-511,053.59**	**-217,090.19**

7. FINANCIAL INCOME AND EXPENSES

EUR	2017	2016
Dividend and interest income from Group companies	2,135,850.18	1,608,008.93
Other interest income	312.00	2,817.84
Other interest expenses	-147,247.09	-73,524.70
Total	**1,988,915.09**	**1,537,302.07**

8. INCOME TAXES

EUR	2017	2016
Income tax for ordinary operations	-272,459.29	-141,301.37
Deferred taxes related to changes in fair values of the investment properties	-5,894,520.16	-3,547,488.59
Total	**-6,166,979.45**	**-3,688,789.96**

9. INTANGIBLE ASSETS AND MACHINERY AND EQUIPMENT

EUR	Intangible rights	Other expenses with long-term effects	Machinery and equipment	Total
Acquisition cost 1 Jan 2016	12,000.00	1,950.00	26,479.71	40,429.71
Increases	9,250.00	837,470.91	2,695.65	849,416.56
Decreases	0.00	0.00	0.00	0.00
Acquisition cost 31 Dec 2016	21,250.00	839,420.91	29,175.36	889,846.27
Accumulated depreciation, amortisation and impairments 1 Jan 2016	-3,600.00	-650.00	-4,629.59	-8,879.59
Depreciation and amortisation during the financial year	-4,250.03	-210,017.76	-2,822.40	-217,090.19
Accumulated depreciation and amortisation on 31 December 2016	-7,850.03	-210,667.76	-7,451.99	-225,969.78
Book value 31 Dec 2016	**13,399.97**	**628,753.15**	**21,723.37**	**663,876.49**
Acquisition cost 1 Jan 2017	21,250.00	839,420.91	29,175.36	889,846.27
Increases	0.00	1,116,762.48	15,633.56	1,132,396.04
Decreases	0.00	0.00	0.00	0.00
Acquisition cost 31 Dec 2017	21,250.00	1,956,183.39	44,808.92	2,022,242.31
Accumulated depreciation, amortisation and impairments 1 Jan 2017	-7,850.03	-210,667.76	-7,451.99	-225,969.78
Depreciation and amortisation during the financial year	-4,249.97	-502,417.79	-4,385.83	-511,053.59
Accumulated depreciation and amortisation on 31 Dec 2017	-12,100.00	-713,085.55	-11,837.82	-737,023.37
Book value 31 Dec 2017	**9,150.00**	**1,243,097.84**	**32,971.10**	**1,285,218.94**

The expenses incurred by the listing in the Nadsaq Helsinki market place, EUR 1,111,757.48, were recognised in the expenses with long-term effects in the balance sheet. The expenses related to the listing will be depreciated on a straight-line basis in three years starting from 1 April 2017.

10. HOLDINGS IN OTHER COMPANIES

At the end of the 2017 financial year Suomen Hoivatilat Oyj wholly owned 109 limited liability housing companies. In addition, the Company owned shares in one other limited liability housing company. Investment properties whose ownership is arranged in company form are measured at fair value in the financial statements and presented on the balance sheet's row "Investment properties". The changes in the fair values are presented on the income statement's row "Transfers of investment properties and changes in fair value".

EUR	2017	2016
Fair value of the investment properties 1 Jan	**41,934,073**	**23,957,026**
Investments in stocks of limited liability housing companies	1,613,600	239,604
Profits and losses from changes in the fair values	29,472,601	17,737,443
Fair value of the investment properties 31 Dec	**73,020,274**	**41,934,073**

Company	Address	Parent holding 2017	Parent holding 2016
Kiinteistö Oy Espoon Hirvisuontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Espoon Opettajantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Espoon Vuoripirtintie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Heinolan Lähteentie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Hollolan Sarkatie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kokkolan Vanha Ouluntie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kotkan Loitsutie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kouvolan Pappilantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kuopion Rantaraitti	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Lohjan Ansatie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Mäntyharjun Lääkärinkuja	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Mäntyharjun Taavetintie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Nokian Näsiäkatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Orimattilan Suppulanpolku	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Oulun Ukkoherrantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Oulun Ukkoherrantie B	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Porin Palokärjentie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Porvoon Fredrika Runeberginkatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Porvoon Vanha Kuninkaantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Rovaniemen Ritarinne	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Ruskon Päällistönmäentie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Sipoon Satotalmantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Ulvilan Peltotie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Uudenkaupungin Merimetsopolku A	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Uudenkaupungin Merimetsopolku B	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Uudenkaupungin Merimetsopolku C	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Uudenkaupungin Puusepänkatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Vantaan Mesikukantie	Lentokatu 2, 90460 Oulunsalo	100%	100%

Company	Address	Parent holding 2017	Parent holding 2016
Kiinteistö Oy Varkauden Kaura-ahontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Vihdin Koivissillankuja	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Jyväskylän Haperontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kajaanin Erätie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Keravan Männiköntie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Espoon Fallåkerinrinne	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Espoon Meriviitantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Espoon Tikasmäentie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Hämeenlinnan Vanha Alikartanontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Jyväskylän Väliharjuntie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kajaanin Menninkäisentie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kangasalan Mäntyveräjäntie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kirkkonummen Kotitontunkuja	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kouvolan Kaartokuja	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kouvolan Toukomiehentie B	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kouvolan Vinttikaivontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Kuopion Sipulikatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Lahden Vallesmanninkatu A	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Lahden Vallesmanninkatu B	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Laukaan Hytösenkuja	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Limingan Kauppakaari	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Loviisan Mannerheiminkatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Maskun Ruskontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Mäntsälän Liedontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Nokian Vikkulankatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Nurmijärven Laidunalue	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Nurmijärven Vehnäpellontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Oulun Kehätie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Oulun Paulareitti	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Oulun Rakkakiventie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Paimion Kämmekkä	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Pirkkalan Lehtimäentie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Porin Ojantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Porvoon Peippolankuja	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Raision Tenavakatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Siilinjärven Sinisiipi	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Tampereen Lentävänniemenkatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Turun Kukolantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Turun Teollisuuskatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Turun Vakiniituntie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Turun Vähäheikkiläntie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Uudenkaupungin Salmenkatu	Lentokatu 2, 90460 Oulunsalo	100%	100%

Company	Address	Parent holding 2017	Parent holding 2016
Kiinteistö Oy Vantaan Koetilankatu	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Vantaan Punakiventie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Vantaan Tuovintie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Vantaan Vuohirinne	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Vihdin Vanhan-Sepän tie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Ylöjärven Mustarastaantie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Ylöjärven Työväentalontie	Lentokatu 2, 90460 Oulunsalo	100%	100%
Kiinteistö Oy Euran Käräjämäentie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Hämeenlinnan Jukolanraitti	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Iisalmen Eteläinen puistoraitti	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Iisalmen Kangaslammintie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Jyväskylän Mannisenmäentie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Kaarinan Nurminiitynkatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Kajaanin Valonkatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Kalajoen Hannilantie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Keuruun Tehtaantie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Kuopion Amerikanraitti 10	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Lahden Jahtikatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Lahden Piisamikatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Lappeenrannan Orioninkatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Mikkelin Väänäsenpolku	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Mikkelin Ylännetie 10	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Mikkelin Ylännetie 8	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Nurmijärven Ratakuja	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Paimion Mäkiläntie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Pihtiputaan Nurmelanpolku	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Pirkkalan Pereensaarentie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Porin Koekatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Raahen Palokunnanhovi	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Rovaniemen Matkavaarantie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Sastamalan Tyrväänkyläntie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Siilinjärven Risulantie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Sipoon Aarrepuistonkuja	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Sipoon Aarretie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Tornion Torpin Rinnakkaiskatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Turun Lukkosepänkatu	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Uudenkaupungin Merilinnuntie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Varkauden Savontie	Lentokatu 2, 90460 Oulunsalo	100%	0%
Kiinteistö Oy Vihdin Pengerkuja	Lentokatu 2, 90460 Oulunsalo	100%	0%

11. RECEIVABLES FROM GROUP COMPANIES		
EUR	2017	2016
Non-current Group loan receivables	59,464,143.98	39,282,143.98
Prepayments and accrued income	4,296,137.49	2,679,381.67
Other Group receivables	6,536,427.03	1,879,017.40
Total	**70,296,708.50**	**43,840,543.05**

12. ESSENTIAL ITEMS RELATED TO PREPAYMENTS AND ACCRUED INCOME AND OTHER PREPAID EXPENSES		
EUR	2017	2016
Deferred tax assets	83,346.10	11,722.19
Other accrued income	239,682.27	123,629.45
Total	**323,028.37**	**135,351.64**

13. EQUITY		
EUR	2017	2016
Share capital 1 Jan	80,000.00	50,000.00
Change in the financial year	0.00	30,000.00
Share capital 31 Dec	80,000.00	80,000.00
Invested non-restricted equity reserve 1 Jan	39,779,894.19	23,005,805.03
Amount entered in share capital	0.00	-30,000.00
Share issue	31,500,000.00	16,804,089.16
Invested non-restricted equity reserve 31 Dec	71,279,894.19	39,779,894.19
Profit from previous periods 1 Jan	35,842,610.59	3,146,847.77
Change in the opening balance	0.00	18,960,293.37
Distribution of dividends	-2,078,885.90	-1,033,670.60
Profit form previous periods 31 Dec	33,763,724.69	21,073,470.54
Profit for the financial year**	24,642,851.64	14,769,140.06
Total shareholders' equity 31 Dec	**129,766,470.52**	**42,552,257.04**

* The retained earnings of the approved and audited financial statements for 1 Jan 2016–31 Dec 2016 were the 1 Jan 2016 EUR 3,146,847.77. The effect of the change in the production of the parent company's financial statements, i.e. measuring the investment properties at fair value in retained earnings of Jan 1 2016 is EUR 18,960,293.37.
** The profit for the fiscal year of the approved and audited financial statements for 1 Jan 2016–31 Dec 2016 was the 1 Jan 2016 EUR 579,185.68. The effect of the change in the production of the financial statements on the profit for the fiscal year was EUR 14,189,954.38.

14. DISTRIBUTABLE FUNDS		
EUR	2017	2016
Invested non-restricted equity reserve	71,279,894.19	39,779,894.19
Profit from previous financial years	33,763,724.69	21,073,470.54
Profit/loss for the financial year	24,642,851.64	14,769,140.06
Total	**129,686,470.52**	**75,622,504.78**

15. LIABILITIES TO GROUP COMPANIES		
EUR	2017	2016
Short-term Group liabilities	1,928,985.06	551,859.65
Total	**1,928,985.06**	**551,859.65**

16. DEFERRED TAX LIABILITIES		
EUR	2017	2016
Deferred tax liabilities from measuring the investment properties at fair value	14,182,082.10	8,287,561.94
Total	**14,182,082.10**	**8,287,561.94**

17. ESSENTIAL ITEMS IN ACCRUALS AND DEFERRED INCOME		
EUR	2017	2016
Personnel expense amortisations	154,967.66	111,647.16
Income taxes	28,517.91	0.00
Amortisation of the cash contribuiton of the incentive programme	1,097,685.00	0.00
Other	44,158.18	66,455.28
Total	**1,325,328.75**	**178,102.44**

18. COLLATERAL AND CONTINGENT LIABILITIES

EUR	Loan capital	Property mortgages	Pledges given	Collateral total
Loans from financial institutions*	244,778.00	0.00	18,356,560.22	18,356,560.22
Other liabilities with collateral	0.00	0.00	0.00	0.00
Total	**244,778.00**	**0.00**	**18,356,560.22**	**18,356,560.22**

* The parent company had a total limits of EUR 4,000,000 available, of which EUR 0 were in use on the balance sheet date.

Collateral given by the parent company on behalf of subsidiaries		
EUR	**2017**	**2016**
Financial guarantees given by the parent company on behalf of subsidiaries	109,888,645.04	70,248,255.14
Share pledges given by the parent company on behalf of subsidiaries	32,023,402.31	16,782,163.11
Other pledges given by the parent company on behalf of subsidiaries / pledging of Group receivables	18,269,060.22	10,751,150.22
Total	**160,181,107.57**	**97,781,568.47**

Off-balance sheet leasing liabilities		
EUR	**2017**	**2016**
Payable in one year	44,494.44	49,584.42
In one to five years	25,412.54	45,144.24
In more than five years	0.00	0.00
Leasing liabilities, total	**69,906.97**	**94,728.67**

19. OTHER ADJUSTMENTS TO CASH FLOW FROM OPERATIONS

EUR	2017	2016
Changes in fair value of the investment properties	29,472,600.81	17,737,442.97
Increase (-) / decrease (+) in depreciation difference	-3,299.03	-4,689.96
Other adjustments, total	**29,469,301.78**	**17,732,753.01**

SIGNATURES TO THE FINANCIAL STATEMENTS AND THE BOARD OF DIRECTORS' REPORT

Oulu, 27 February 2018

Pertti Huuskonen
Chairman of the Board of Directors

Reijo Tauriainen
member of the Board of Directors

Satu Ahlman
member of the Board of Directors

Timo Pekkarinen
member of the Board of Directors

Mammu Kaario
member of the Board of Directors

Jussi Karjula
CEO

AUDITOR'S NOTE

Our Auditor's Report was issued today.

Oulu, 27 February 2018

KPMG Oy Ab
Authorised Public Accountants
Tapio Raappana, APA

AUDITOR'S REPORT
To the Annual General Meeting of Suomen Hoivatilat Oyj

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Suomen Hoivatilat Oyj (business identity code 2241238-0) for the year ended 31 December 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, calculation of changes in the Group's 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.

Valuation of Investment Properties in consolidated and in parent company's financial statements

(Refer to Accounting policies for consolidated financial statements, section "Investment Properties" and notes 3 and 10 as well as accounting principles for the parent company's financial statements and note 10)

Key audit matters	Audit approach to the matters
· The investment properties measured at fair value (EUR 247,1 million) represent over 95 % of the consolidated total assets in the 2017 financial statements. · The fair value of investment properties owned through property companies in the parent company's balance sheet was EUR 73.0 million. · Valuation of investment properties is considered a key audit matter for the Group and the parent company due to management's estimates used in forecasts underlying the valuations, and significance of the carrying amounts involved. · The fair values of investment properties are determined by an external property appraiser. The valuation is based on estimated property-specific discounted net cash flows.	· We assessed the assumptions used requiring management judgement as well as the grounds for substantial changes in fair values. We also tested the accuracy of basis data used in the calculations. · We tested the technical appropriateness of the calculation, and compared the assumptions used to market and industry data, on a sample basis. We involved KPMG valuation specialist in the engagement. · We discussed with an external property appraiser (Authorised Property Appraiser, AKA) used by Suomen Hoivatilat, to evaluate the appropriateness of the valuation method applied by the Group and the parent company. · We assessed the appropriateness of the disclosures provided on the investment properties.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 25 March 2013 and our appointment represents a total period of uninterrupted engagement of 5 years. Suomen Hoivatilat Oyj became a public interest entity on 1 March 2017.

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, 27 February 2018
KPMG Oy Ab

Tapio Raappana
Authorised Public Accountant, KHT

HOIVATILAT

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