HOIVATILAT

HYVÄN HOIVAN TILOJA 10 vuotta

ANNUAL REPORT 2018


HYVÄN HOIVA
10

CONTENTS

SUOMEN HOIVATILAT IN 2018

CORPORATE GOVERNANCE STATEMENT 2018

FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

10 years AS A REFORMER

Hoivatilat's business has an important social dimension. Our primary mission is to create a better society together with our partners. We want to offer our clients, who occupy our service properties, an environment that allows them to provide excellent service and a supreme customer experience to their customers. As a public company and contractual partner, we value responsible methods of operation and reliability. These principles reflect our values.

GROWTH IN FINANCIAL INDICATORS

Hoivatilat is a growth company. Our young company celebrated its 10 years of operations in December in a very positive atmosphere. In addition to strong development efforts, all key indicators improved considerably: revenue grew by almost 40%, the value of investment properties increased by approximately 41% and profit for the period by more than 45%. The return on equity – an indicator important to shareholders – was also excellent at almost 25,4%. Other indicators that are at a level that is exceptionally high for our field include the 100% occupancy rate and the average maturity of the agreement portfolio of 14,9 years. During the year, we carried out 36 projects to build early education and care service facilities in Finnish growth regions. The number of our employees increased, and our cooperation network was expanded further. We served our long-term partners and won new clients.

Our business model is based on strong project development, construction operations, financing and ownership. This model requires significant amounts of capital and careful financial management. In April 2018, Hoivatilat adopted a new financing solution as it agreed on EUR 50 million in long-term financing with the European Investment Bank (EIB). The first loan of EUR 30 million was signed for at the same time. The financing agreed on with the EIB, together with other bank financing, allows the implementation of an investment portfolio of approximately EUR 100 million.

GROWTH FROM NEW BUSINESS

We launched several new business initiatives in 2018. We established a subsidiary in Sweden, introduced prefabricated, movable service facilities, launched our first school project and presented the service community concept, Toiveiden kortteli. We also renewed our nursing home concepts. In an increased number of cases, sheltered housing for senior citizens is constructed as an apartment house with many housing service and care levels available in the same building. For many years now, Hoivatilat has been a strong player in providing facilities for education as well as social and health services. We have completed or started a total of 180 leased facility projects for different target groups in approximately 60 municipalities.

Ageing 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 changing. The facilities can be rented and the responsibility for their lifecycle can be taken by a private operator so that instead of engaging in construction work, the municipality can concentrate on its core mission of providing excellent services. Hoivatilat actively participates in this transformation process.

FUTURE GROWTH EXPECTED

In December 2018, the Board of Directors of Hoivatilat published the financial goals for the strategic period 2019-2021. These goals indicate that Hoivatilat's strong growth will also continue in the future. The key goals can be summarised as follows:

- Annual revenue growth 30 per cent on average
- Operating result at 40 per cent of revenue, on average
- Equity ratio at least 30 per cent on average.

According to Hoivatilat's dividend distribution policy, the target is to distribute at least 50 per cent of the operating result 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.

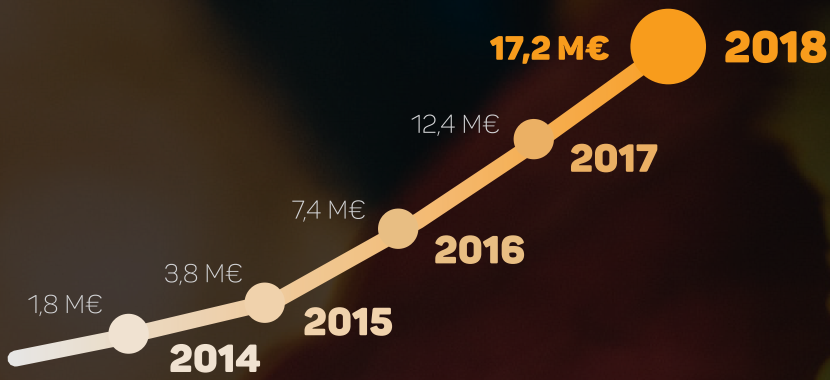
Jussi Karjula
Chief Executive Officer
@KarjulaJussi

"Hoivatilat, now 10 years old, is a young reformer. Our primary mission is to build a better society and better service environments."

KEY FIGURES
31 Dec 2018

COMPANY FOUNDED
2008

LISTED ON NASDAQ HELSINKI MAIN MARKET ON
1 March 2017



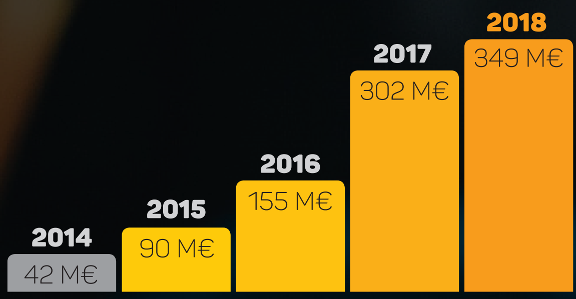
TOTAL REVENUE
17,2 M€

OCCUPANCY RATE
100%

AVERAGE MATURITY OF LEASES
14.9 years

AGE OF COMPLETED PROPERTIES
2.0 years

VALUE OF LEASE PORTFOLIO
427 M€

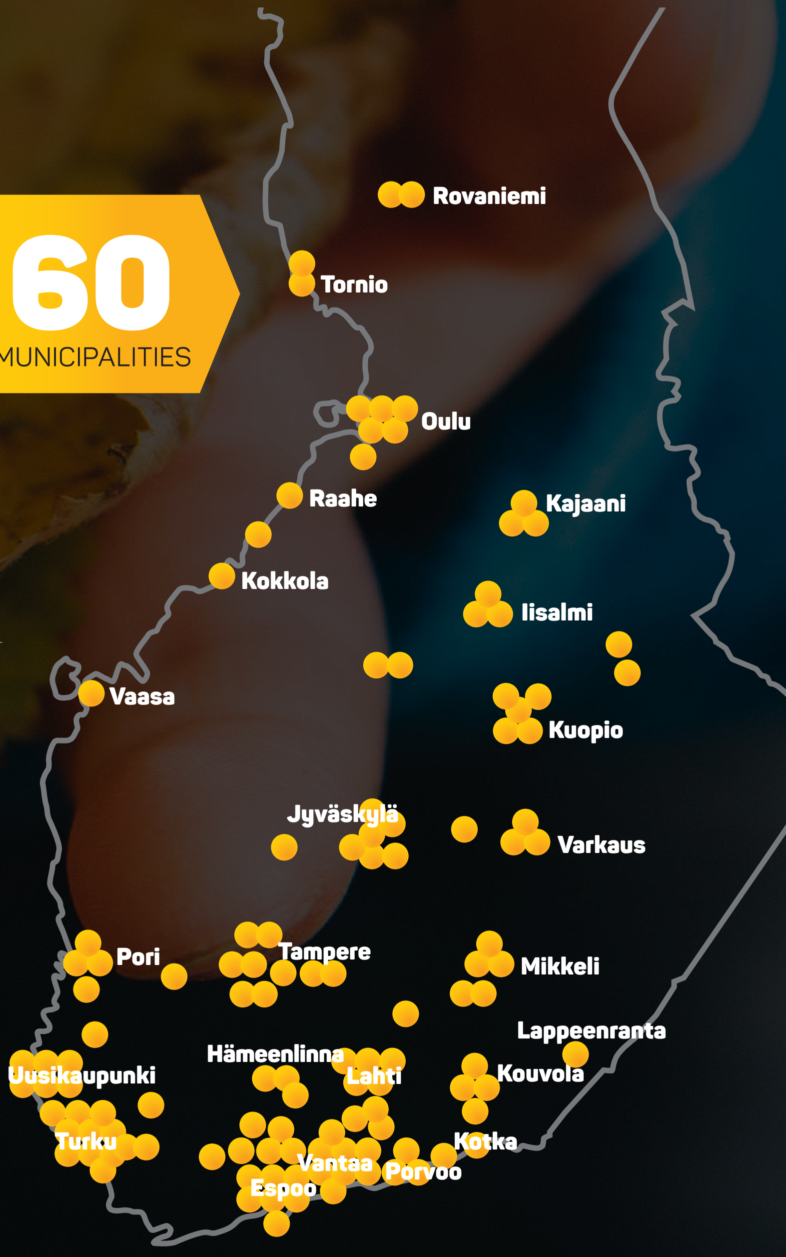


VALUE OF PROPERTIES

349 M€

180 PROJECTS

60 MUNICIPALITIES



OPERATING RESULT

7,7 M€

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.

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 other businesses, we are a partner that assumes 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 60 Finnish municipalities, and have started and implemented a total of over 180 real estate projects throughout Finland. In 2018, we established a subsidiary in Sweden, and will therefore continue to be a partner to Swedish municipalities and service companies.

Service experience at the heart of business

Hoivatilat's business operations are guided by the company's values: helping our customers, creating value for customers, owners and society, speed and straightforwardness, and courage.

Hoivatilat's business has an important social dimension. We want to provide the customers who occupy our service properties with 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.

Hoivatilat's business operations have an important social dimension.

We offer care facilities as a service. We are continually developing our existing and new service concepts. Customer-oriented and participatory design, regional development, high-quality construction, development of the user experience, life cycle ownership, ecological awareness and environmental responsibility are the key focus areas for developing our business. We are also aiming for international growth.

Hoivatilat is a growth company

In December 2018, the Board of Directors of Hoivatilat published the financial goals for the strategic period 2019-2021. These goals indicate that Hoivatilat's strong growth will also continue in the future. The key goals can be summarised as follows:

- Annual revenue growth 30 per cent on average
- Operating result at 40 per cent of revenue, on average
- Equity ratio at least 30 per cent on average.

The growth pursued by the company must be responsible, controlled and profitable. Hoivatilat aims to provide its owners with a good return on their investment through share value appreciation and payment of dividends. Activities must not only be profitable, but also sustainable. Operational efficiency and a property occupancy rate of 100 per cent are key principles for profitable business operations.

Why select Hoivatilat?

Our business model is unique. Ten years ago, leading the way, we set out to offer municipalities and care companies a way to organise services or engage in business operations without the need to invest in properties. This operation model has proved a success.

1 Investment-free

2 Single turnkey contract

3 Flexible facilities and inclusive design process

4 Hoivatilat knows the special requirements of care facilities

We build, finance, own and lease

Hoivatilat has various types of care and education facilities in its product portfolio. Our continuous product development is customer-centric.

DAY-CARE CENTRES

Day-care facilities lay the foundation for our growth. We have built 100 day-care centres around Finland. In 2018, we introduced a movable prefabricated day-care centre.

CARE FACILITIES

With 60 properties completed, nursing homes and assisted living facilities for the elderly for the private and public sectors are at the core of our business operations and expertise.

SERVICE COMMUNITIES

In autumn 2018, we introduced an inclusive service community concept. The first projects will be completed in Tuusula in 2020 and in Lohja in 2021.

SCHOOLS

In the spring of 2018, we introduced the Domino School, a flexible modular school concept. The first Domino School is being built in Siilinjärvi.

OTHER SPECIAL PROPERTIES

As a rule, the operating models of the third sector and non-profit organisations do not allow for the ownership of properties. In 2018, we started our children's home and shelter consept work.

MEGATRENDS

- Urbanisation
- Aging population
- Financial challenges in the public sector
- Customers' freedom of choice
- Ecological considerations
- Technological development, AI and digitalisation
- Health

Ability to create something new

VIS

We create
customer ex
a provider of
education,
social s

PARTNERSHIPS

- Customers
- Colleagues
- Construction partners
- Owners
- Other networks

DEVELOPMENT PROGRAMMES

- Digital operations
- International operations
- New service concepts
- Land acquisitions and regional dev
- Improved user experience

BASIC M

We create a bet
improved servic
together with
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BUILDING BLOCKS FOR SUCCESS

Customer-oriented approach

Ecosystem – skilled staff and networks

Service solutions for growing regions

Focus on education, health and social services

Lifecycle ownership and quality property portfolio

Ability to create something new

VALUES

We help our customers

We create value

Suomen Hoivatilat Oyj 2018-2021

SOLUTIONS FOR GROWTH

ION

a superior
xperience as
f facilities for
health and
ervices.

IISSION

tter society and
e environments
our partners.
o create
ing new

We are fast and straightforward

We are bold

NEW business initiatives

2018 was a year of action for Hoivatilat. Our organisation grew and strengthened. We launched several new business initiatives and saw significant increases in our key indicators.

The business of Hoivatilat grew on many fronts during the year. We launched facility projects for new target groups, built new facility types and established a subsidiary in Sweden.

Judged by all key indicators, 2018 was a year of strong growth. Looking at balance sheet indicators as well as sales figures, Hoivatilat broke all 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

Urbanisation continues in Finland and the rest of Europe as a whole, and the population is ageing. Over the past two decades, the population of the Helsinki-Uusimaa region has increased by almost 500,000 people. Approximately 70 per cent of the country's population is already living in and around the 14 largest towns and cities. Finland has the most rapidly ageing population in Europe. The number of people aged over 75 will double over the next two decades.

Hoivatilat will play an important role in the future of nursing services and housing in the ageing Finland – and Sweden. To complement traditional nursing home solutions, we launched the service community concept in the autumn. The new concept, *"Toiveiden kortteli"*, represents the future of urban planning. It is based on listening to the needs of the target groups, and participatory design. Inclusion of municipal decision-makers, residents of the area and various operators in the planning and design work will allow improved everyday life and development of the urban environment.

We will appear at the 2020 Tuusula and 2021 Lohja Housing Fairs, introducing examples of our Toiveiden kortteli concept. The construction of the Tuusula project will begin early in 2019, and the design work has already progressed to an advanced point. The community will have a day care centre, sheltered housing for senior citizens as well as care units and communal indoor and outdoor facilities available to the residents.

Facilities are not timeless – new sustainable solutions

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 ROTI 2017 report on the state of built infrastructure (Rakennetun omaisuuden tila ROTI 2017), as many as one 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 its field.

The planning and implementation of our facility projects are based on life-cycle ownership and responsible contracting. This means safe, healthy and flexible facilities and the favouring of renewable energy forms in the heating solutions. For example, Hoivatilat has built several day care centres using wooden logs. As a new initiative, we introduced prefabricated movable and flexible units during the year. The first movable day care centre was completed in Raahe in December. The construction of our first leased school building began in autumn 2018 in Siilinjärvi.

The planning and implementation of our facility projects are based on life-cycle ownership and responsible contracting.

Strategic partnership and focusing
Our business operations are based on close client relationships, understanding our clients' business, and good user experiences. 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 2018, Hoivatilat carried out almost 40 property projects. Hoivatilat has a diverse clientele including approximately 30 tenants. Three largest customers cover 54 per cent of the rental agreement portfolio.

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.

In Autumn 2018, Hoivatilat expanded into the Swedish market with the establishment of the Hoivatilat Ab subsidiary. Maria Frid, who has a long experience in real estate business and the care sector, started as a country manager in September. The subsidiary has offices in Stockholm.

Hoivatilat divides its facilities into four categories. The category of day care centres has the highest number of projects. The second most frequently built facility type are nursing homes for senior citizens and care facilities for people with disabilities and other special needs. The first shelter home and children's home projects were launched during the year. Hoivatilat also builds service communities and schools.

Focus on operational efficiency
Hoivatilat's business model emphasises the adoption of an active role in forming relationships with municipalities and in land acquisition. To create added value for our customers, we must know the prospects and growth regions of the municipalities that are central to our operations. Our projects often start by acquiring a plot of land and linking it to a private service operator. Internal project development and real estate development are our central fields of expertise.

We have our own efficient organisation, but we also rely on the support of 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 the long-term owner of the properties. We use digital technology in managing our network of more than 150 properties. Our property management has an overview of all properties and can monitor them using selected indicators.

Financial indicators
Hoivatilat is growing rapidly as a company. Our operating profit can be divided into two categories: The first category is the income from the renting business, which comprises 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 2018, the required yield estimated by a third-party auditor decreased from 6.46 percentage points to 6.15.

Hoivatilat's operational efficiency, which is important for shareholders, is good in comparison with other companies in the real estate sector. This is despite the fact that the operating costs listed in the income statement also include the costs for sales and project development. The company's operating profit was EUR 7.7 million, and the revenue was EUR 17.2 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 427 million, which assures the agreed lease revenue of the following years. The average lease period is 14,9 years. The occupancy rate of the properties has been 100 per cent throughout the company's history.

12|2008
Lapti-Invest Oy founded
three people and Rakennusliike Lapti Oy

05|2010
Jussi Karjula
as founder and partner

08|2010
Four day care centres in the Oulu region

12|2010
Pertti Huuskonen
joins as a board member and partner

04|2011
6 new projects started,
including the first nursing home projects

A general trend is a move away from institutional care for the elderly and developmentally disabled

10|2012
Change of name
Suomen Hoivatilat Oy

03|2013
Obsido Holding becomes majority shareholder
- A total of 33 partners
- Rakennusliike Lapti separates from the company
- Share issue of approx. EUR 5 million

Company value approx.

MEUR 4

MEUR 10

A DECADE OF GROWTH

Hoivatilat celebrated its tenth anniversary in December 2018. We organised a charity concert for our stakeholders. The concert included a presentation about our history, which was also discussed in Ratkaisuja magazine in early 2019. The articles in this special issue were based on our customer promise: we help our customers, create value, respond rapidly and are straightforward, and create bold new solutions and concepts. This lays the foundation for all our operations.

HYVÄN HOIVAN TILOJA 10 vuotta

03|2014

An additional office, in Helsinki

12|2015

Partnera Oy becomes majority shareholder

- Approx. 80 shareholders

03|2016

First North listing

- Approx. 1,200 shareholders
- Share issue EUR 17 million

12|2016

Hoivatilat's portfolio already has 100 property projects in 50 municipalities

03|2017

Transfer to the Nasdaq Helsinki main list

- 5,000 shareholders
- Share issue EUR 31.5 million

11|2017

First life cycle project being built

04|2018

Conclusion of financial agreement with the EIB

08|2018

First school project started

Hoivatilat AB founded in Stockholm

12|2018

First prefabricated day care centre completed

MEUR 44

MEUR 200

- Total value of properties approx. EUR 340 million
- 9,000 shareholders

Operating environment and trends

Hoivatilat expects that the following trends in its operating environment, as well as timely and appropriate responses to these trends, will drive the company's growth:

- An ageing population
- A weakening dependency ratio
- Urbanisation and the concentration of the population
- Public sector indebtedness and economic challenges
- Structural reform in health and social services
- The state of culture and education facilities (schools and day-care centres)
- The increasing use of service vouchers in early education services and elderly care
- Ecological considerations
- Artificial intelligence and digitalisation

The economy

The Ministry of Finance forecasts that GDP and investment growth in Finland will slow in 2019. Interest rates are expected to remain low in the near future, and the most rapid phase of economic growth in Finland is now over. New projects in construction subsectors other than residential construction will begin to decrease, with the exception of public service buildings, for which the volume of building permits granted increased in 2018 year-on-year. Properties include a large number of old buildings nearing the end of their life cycle, as well as properties with indoor air problems and a maintenance backlog that require renovation.

Read more about construction and economic cycles on page 46.

Ageing and health and social services

Finland has the most rapidly ageing population in Europe. The number of people aged over 75 will nearly double over the next two decades. The trend is similar in Sweden. The health and social services reform in Finland is intended to be implemented as of 1 January 2021. The related laws are currently being processed by the Parliament of Finland. With the population ageing, the need for assisted living and care services will increase strongly, and private service providers will play a key role. This trend is likely to strengthen, regardless of whether the health and social services reform and the Freedom of Choice Act are implemented as planned.

Read more about the effects of the health and social services reform on page 42 of the Board of Directors' report.

Urbanisation

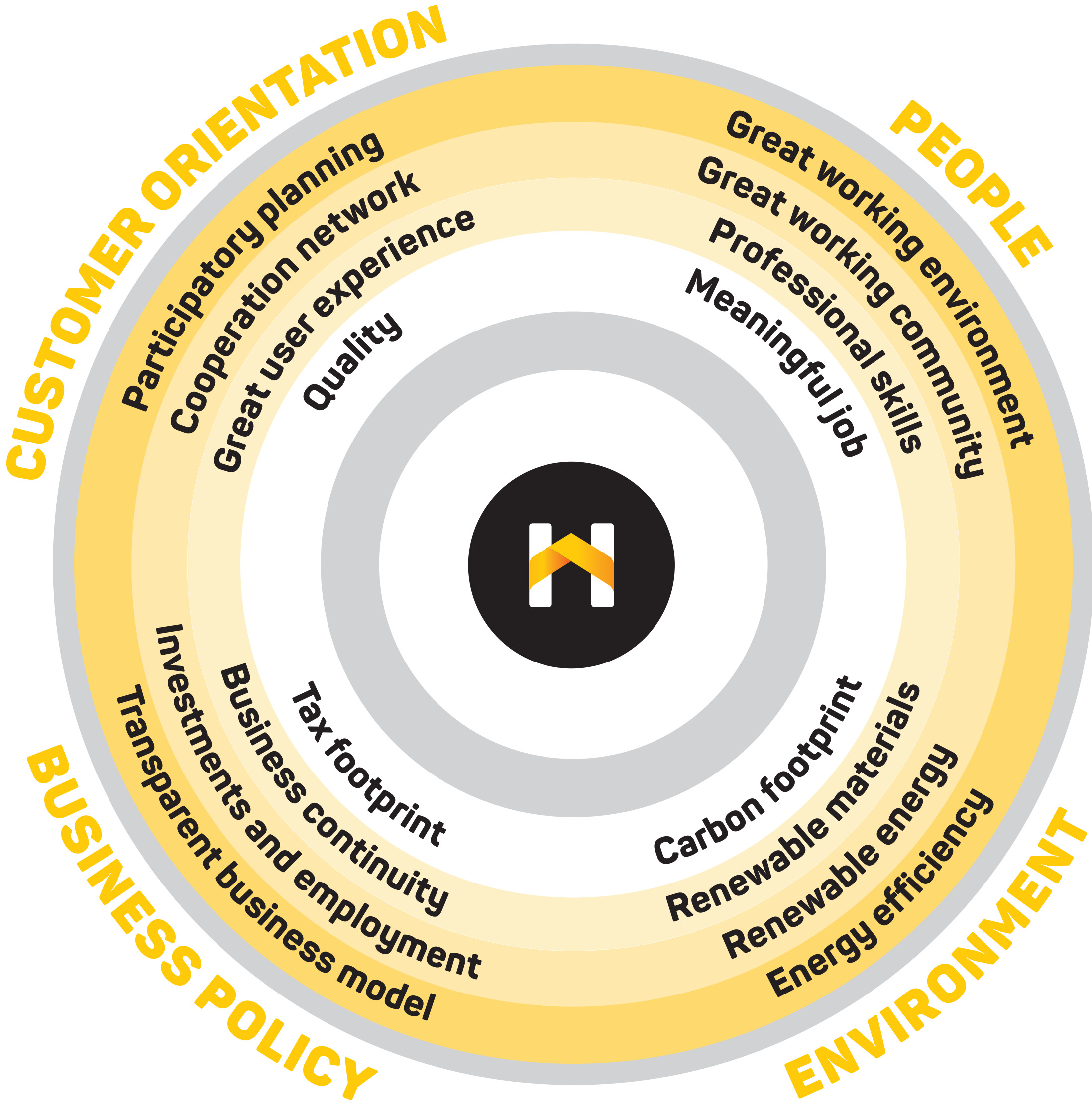
Urbanisation is a global megatrend that is also evident in Finland. Approximately 70 per cent of the country's population is already living in and around the 14 largest towns and cities. Urbanisation requires growth municipalities to provide and distribute services and housing in a new, socially sustainable way.

The Hoivatilat solution: Toiveiden kortteli service community concept, see page 24.

Building a better society

In 2018, Hoivatilat determined the content of its corporate responsibility and key sustainability focuses. During the process, the company also determined the data that serves as the basis for assessing its sustainability development in the future.

The company's operations are divided into four areas, which determine its sustainability themes. The most important sustainability focuses include **a customer-oriented offering and operating methods**, **environmental responsibility**, **people's well-being**, and **profitable business operations**.



Personnel

Hoivatilat is a company that grows with its customers and partner network. All our operations focus on our customers, and our employees seek to offer a superior customer experience over and over again.

Our small, highly efficient team consists of people working on key project tasks, such as customer relationship management, administration, project development, construction and property management. With the help of partner network, Hoivatilat can carry out a large number of projects each year, as well as managing its current property portfolio.

Personnel in 2018

At the end of 2018, Hoivatilat had a CEO and 18 employees. The company had 11 employees in Oulu, 7 in Espoo and 1 in Stockholm. Four new employees were recruited during the year to strengthen competence in construction, administration, marketing, new business concept development and international operations.

Staff satisfaction and development of the work community

In March 2018, for the first time, Hoivatilat conducted a staff satisfaction survey based on the Great Place to Work model. The Trust Index © survey assesses the organisation's starting situation and helps identify its existing strengths and development goals. With a Trust Index of 70 per cent or more, the organisation receives international recognition as a fantastic workplace, earning it the Great Place to Work® certification.

Not only did we receive brilliant results and the Great Place to Work® certification, but we also gained valuable insights for the continued development of human resources. In the future, we will pay special attention to the distribution and coordination of work tasks and to the management's communication and feedback to team members. The development of new know-how, leadership and skilful leadership were chosen as the new focus areas for work with personnel. A systematic model of skills development is being created for each team in order to promote their work development.

Encouraging exercise through our sports challenge

Hoivatilat wants to encourage its employees to have a healthy, physically active lifestyle. We did this in 2018 by providing sports vouchers, as in previous years. We also continued the traditional Hoivatilat sports challenge, where staff gain weekly points through physical activity. The sports and forms of exercise for which points can be gained are announced in advance, and all those who meet and exceed the target are given a monetary bonus at the end of the challenge period.

Points were won in several sports and activities: running and walking, cycling and rollerblading, skiing, swimming, gym and aerobics. Employees also picked up points for badminton, tennis and golf.

Around three hours of exercise per week was needed to complete the challenge. In the spring 2018 sport challenge, for example, 83 per cent of participating employees reached the target, and many were very close to it. We have received very positive feedback from staff about the sports challenge, and we are very pleased with the results!

Trust Index© result, compared to the best performers

Great Place To Work®

	Hoivatilat Oyj	Great Place to Work Finland 2018 – Small company series
Credibility	89%	89%
Respect	90%	90%
Fairness	87%	90%
Pride	95%	92%
Team spirit	94%	94%
Trust Index© overall results	91%	91%

#hoivatilalaisia

In the context of the staff satisfaction survey, the work community gave described itself in the following terms:

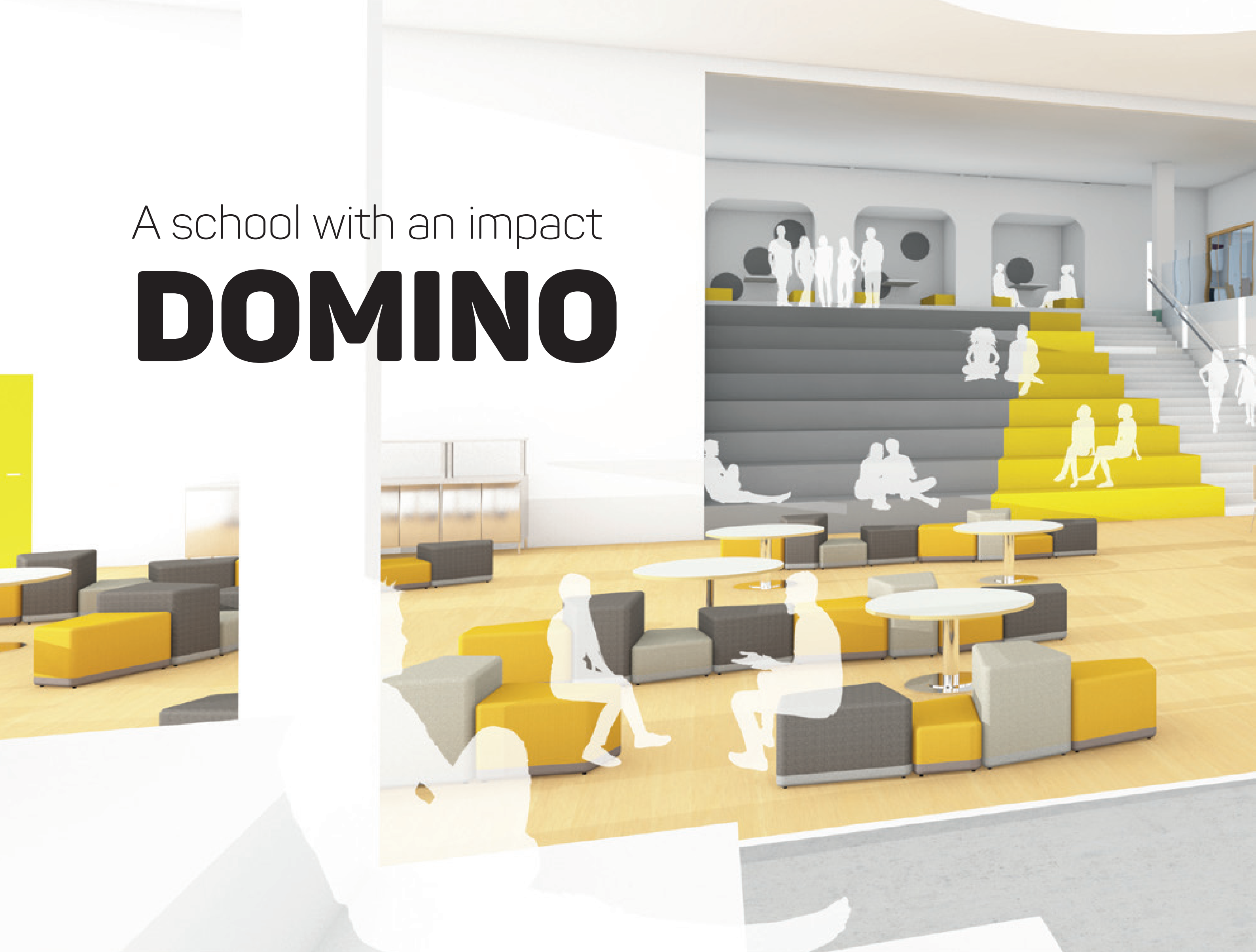
"Exceptional team spirit and encouragement of others. With a small group, great things can be achieved".

"The company has chosen exceptional personalities who would go to any lengths for others".

"Everyone is able to have a real influence on their own work, and on their working hours if necessary. The employer arranges incentives for achieving financial results, achievement of goals, and more. The work community is quite tight-knit and close. "

A school with an impact

DOMINO



Our Domino school concept was launched in spring 2018. The investment-free leased school building is our vision for tomorrow's school: the modular and flexible design of the facilities meets the needs of the new curriculum as well as the users' wishes. The facilities have been designed based on three basic premises: learning by doing (DO), caring (MIND) and living in the moment (NOW).

The Domino school gives the municipality some room to manoeuvre financially, not having to build the facilities on borrowed money and include them in the balance sheet. The Domino also gives more room to the learners and teachers, as the users can participate in the design effort through virtual tours, for example.

The innovative modular design allows the Domino school to be built in just the right size and shape. The Domino pieces include learning environment, cafeteria, administration and gym modules. Learning environments become more spacious when the design follows the learning area concept. The learning environments may include classroom and teamwork spaces that can be separated from the rest of the area. The utilisation degree and integration level of the building improve with the modular design that meets the needs of early childhood education, pre-school and evening users all at once.

Revolution of public sector procurement

The most typical procurement method is the life-cycle model where the client acquires the building from Hoivatilat with a rental or leasing agreement, and Hoivatilat adopts the responsibility for the maintenance of the facilities in accordance with the agreed division of responsibilities and service level.

A bidding-based negotiation procedure is a new procurement method that is particularly well suited for school projects. During the negotiation procedure, the client can specify the invitation to tender and implementation for the most productive end result. Bidding-based negotiation creates added value for the project and can guarantee customer satisfaction at all stages of the project.

The first Domino school approaches completion

Our first Domino school is currently under construction in Siilinjärvi. The Kuuslahti elementary school is the municipality's first rented school building. Hoivatilat plays the roles of developer, financier and property owner in the project. Teaching at the new school for 100 pupils will begin in August, and the lease period is 15 years.

Kuuslahti school
Siilinjärvi

Students
100

Contract value
app. EUR 3 Million

Lease agreement
15 years

Partner
Siilinjärvi municipality
Plus Hoivakiinteistöt Oy

To be completed
August 2019

SCIENCE DAY CARE CENTRE VÄLKE
Pori

Children
100

Client
Pilke päiväkodit Oy

Investment value
EUR 2,5 Million

Contractual period
15 years

Completed
June 2018

At the heart of the Housing Fair

Day care with a science focus

With the solid experience of Hoivatilat and its partners, safe and modern facilities for early childhood education were built in a central location within the Housing Fair district in Pori. This was our first science-focused day care centre among our thematic day care units. The centre has facilities for five child groups, and the services are provided by Pilke päiväkodit Oy based on the service voucher system.

The facilities were specifically developed for the Housing Fair, and doubled as the information centre for the fair. The design was based on the requirements set by the district planning and the environment, as well as on the need for being suitable for varied numbers of users in evenings and weekends after the fair district would become an everyday living environment.

Attention to the goals of the new school curriculum

Designed for a hundred children, the day care centre meets the requirements set for a new learning environment. A modifiable layout, flexible combination of spaces, connections between the outdoor and indoor facilities and the multifunctional hall keep the children active and allow the building to be used for many different purposes. The bold design encourages children to take an active attitude to learning and to work independently.

In the science day care centre, children develop a scientific mindset by playing, being creative and using their senses. As a result, their memory and learning skills improve. The day care centre has tools and equipment that inspire experimenting and exploration. Children can use, for example, microscopes and light boxes when playing and learning. The science theme continues in the outdoor areas in a delightful manner: there is a planetary dome where children can spot constellations and climb between planets.

KINDERGARTEN LYBECKERIN-PUISTO
Raahe

Children
150

Floor area
1,000 m²

Investment value
EUR 3 Million

Construction time
4 months

Completed
December 2018

For rapid changes in the service network or business operations

Prefabricated day care centre

Our new prefabricated day care centre is a solution for municipal and private sectors in situations where more space is needed quickly for the needs of early childhood education services. The day care centre can be built in four months, including groundwork and outdoor areas.

The prefabricated unit can be used to balance peak demand. It can be moved, modified and expanded. The lease agreements for our prefabricated day care centres are short, ten years or even less. The client may also purchase the day care centre when the lease agreement expires.

Additional space, safe indoor air quality, facilities where they are needed

New facilities are often required when the old ones deteriorate or develop indoor air problems. To ensure healthy indoor air, the prefabricated units are built indoors in a controlled environment.


Café Horizon

Sustainable urban planning

TOIVEIDEN KORTTELI

The service communities have emerged as the solution for the financial, social and ecological challenges that urban planning has faced in this millennium. Hoivatilat has set itself the goal of being an expert not only in construction, real estate and the service sector, but also in matters concerning society and its development. Therefore, we have developed our own service community concept, Toiveiden kortteli, that was launched at the Kuntamarkkinat municipal fair in September 2018 to meet the growing demand.

The development of the concept began in workshops where an external service designer and facilitator guided us in the search for a vision of how our key goals would be realised in a service community. In the workshops, understanding the client was identified as the focal point of the design effort. Accommodation is nowadays seen as a service that involves more than just the walls around you. Service operators are expected to provide additional services for everyday life. Hoivatilat responds to this need with a partner network.

Three values were set as the basis for the concept:

- **WOW!** (The element of surprise, inspiration, positive feelings, memorable experiences, making an impression, etc.)
- **SENSE** (Profitability, responsibility, easiness, trust, suitability, ease of adoption, intelligent solutions, etc.)
- **HAPPINESS** (Physical and mental health, social aspects, sense of community, security, etc.)

Each community project must therefore have sensible solutions, elements of a happy life and something exciting. At the same time, each community is different, the sum of the wishes of its own stakeholders.

Our operating method in the planning of the communities makes us stand out from the competition. Participation is the core of the concept. Stakeholders – the municipal decision-makers, residents, service providers and other partners – participate in the project at a concrete level using a voting system.

Municipal decision-makers will be able to influence the selection of public and private services, as well as construction partnerships. A potential resident or service provider may have a say on which services, activities and operations they would want in the area. Partners may express their views of what kind of projects they would like to carry out. After the vote, Hoivatilat will put the most popular wishes into action.

Service community can include municipal, regional and governmental as well as private and third-sector services. The community will combine the latest research with the best international examples and trends. Hoivatilat will introduce the best suited suggestions for solutions in each area, bring together partners and service providers, manage the project until its completion and remain the responsible owner of the properties.

Victory for the "Together" service community

The work to develop a service community was boosted by success in the competition for the 2020 Tuusula Housing Fair. Hoivatilat took part in the competition in the new service and housing solutions category, introducing the Together concept. A ed block of wooden houses consists of a day care centre and a nursing home, with a community centre and housing for senior citizens sharing the same courtyard area. People of different age and from varied backgrounds are brought together in the hybrid solution.

THE TOGETHER SERVICE COMMUNITY
Tuusula

To be completed:
For the 2020 Housing Fair

Residents/clients:
Day care centre for 90 children, nursing home for 20 senior citizens, 20 apartments for senior citizens

Partner:
UKI Arkkitehdit

Corporate Governance Statement 2018

Corporate Governance Statement 2018

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 2.3.2) annually prepares proposals for the annual general meeting concerning the election and remuneration of the Board members. In accordance with to 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.

From 1 January to 27 March 2018, the Board of Directors consisted of Pertti Huuskonen, Satu Ahlman, Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. The Board of Directors elected at the Annual General Meeting on 27 March 2018 consisted of Pertti Huuskonen, Satu Ahlman, Harri Aho, Kari Nenonen, Timo Pekkarinen and Reijo Tauriainen, with Pertti Huuskonen as Chairman of the Board. During the 2018 financial year, the Board had seventeen (17) meetings, of which seven (7) were email meetings or teleconferences. The meeting attendance rate among the members of the Board was 97%.

Basic information about the Board members, their independence, remuneration, shareholdings and attendance at Board meetings is provided in the following tables.

BOARD MEMBERS

Name	Position	Year of birth	Education	Independence from the company	Independence from significant shareholders in the company
Pertti Huuskonen	Chairman of the Board of Directors	1956	M.Sc. (Tech.), eMBA, marketing degree	Yes	Yes
Satu Ahlman	Board member	1978	Degree in education (early childhood education)	Yes	Yes
Harri Aho	Board member	1969	MBA	Yes	Yes
Kari Nenonen	Board member	1953	MA	Yes	Yes
Timo Pekkarinen	Board member	1973	Construction engineer, licensed real estate agent	No	Yes
Reijo Tauriainen	Board member	1956	MA	Yes	Yes

Timo Pekkarinen is the CEO of Lapti Group Oy, which is the parent company of Rakennusliike Lapti Oy, one of the company's significant construction partners. Pekkarinen is also a member of the Board of Directors of Rakennusliike Lapti Oy and one of its shareholders.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE BOARD OF DIRECTORS

	31 Dec 2018	31 Dec 2018
Name	**Quantity of shares**	**Percentage of stock**
Pertti Huuskonen	152,486	0,60%
Satu Ahlman	2,540	0,01%
Harri Aho	–	–
Kari Nenonen	–	–
Timo Pekkarinen	896,489	3,52%
Reijo Tauriainen	12,300	0,05%
Board of Directors total	**1,063,815**	**4,18%**

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

Name	Board and committee members' fees 2018, EUR	Sales of services to the company 2018, EUR	Participation in Board meetings
Pertti Huuskonen	58,350	–	16/17
Satu Ahlman	28,753	–	16/17
Harri Aho	23,603	–	12/12
Kari Nenonen	24,303	–	12/12
Timo Pekkarinen	26,753	–	17/17
Reijo Tauriainen	28,953	–	17/17
Mammu Kaario	7,950	–	4/5

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

Industrial Counsellor Pertti Huuskonen has served as the Chairman 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 Chairman of the Board of Directors. Since 2017, Huuskonen has served as Deputy Chairman of the Board of Directors of A. Ahlström Kiinteistöt Oy. Huuskonen has also served as a Board member of AS Pro Kapital Grupp, an Estonian residential and commercial development company, since 2012. Huuskonen served as Chairman of the Board of Directors of Lehto Group Oyj from 2014 to 2018 and as a Board member from 2013 to 2014. He also served as a Board member of Kaleva Oy from 2014 to 2018. Huuskonen has served as the Chairman of the Board of Directors of Technopolis Oyj (2008–2012), a member of the Board (2012–2013) and the company's CEO (1985–2008). Before joining Technopolis, Huuskonen was an entrepreneur at Vakote Oy and also served as its managing director (1979–1985). Huuskonen has worked as an academic adviser and a lecturer on working life at Oulu Business School at the University of Oulu since 2011. He was the Honorary Consul of Sweden in Oulu Province from 1997 to 2013. Huuskonen graduated with a Master's degree in technology from the University of Oulu in 1983. He completed a marketing degree at the Institute of Marketing in 1986 and an eMBA at the University of Oulu in 1991.

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 served as a member of the Board of Directors of Hoivatilat since 2017. Ahlman is the founding partner of Ahlman & CO Development Oy, established in 2012, and has served as its CEO since 2015. The company offers business development and restructuring services for service providers in the social and healthcare sector. Ahlman graduated with a Bachelor's degree in education and a degree in early childhood education from the University of Jyväskylä in 2002. In addition, she has pursued studies towards a Master's degree in economics at the University of Jyväskylä.

Harri Aho

b. 1969, MBA

- Member of the Board since 2018
- Full-time occupation: Development Director at LocalTapiola
- Member of the Audit Committee
- Independent of the Company and its major shareholders

Harri Aho has served as a member of the Board of Directors of Hoivatilat since 2018. Aho works as Development Director at LocalTapiola. He served as the CEO of Omasairaala Oy (Pohjola Sairaala) from 2011 to 2016. He has also served as the Deputy CEO of Fonecta Oy (2009–2011), CEO of Academica Oy (2006–2009) and CEO of Suomen Terveystalo Oy (2001–2006). He holds an MBA.

Kari Nenonen

b. 1953, MA

- Member of the Board since 2018
- Full-time occupation: Professional board member
- Member of the Audit Committee
- Independent of the Company and its major shareholders

Honorary City Councillor Kari Nenonen has served as a member of the Board of Directors of Hoivatilat since 2018. Nenonen served as the Mayor of Vantaa from 2012 to 2018. He has also served as the Deputy CEO of the Association of Finnish Local and Regional Authorities (2010–2011), CEO of the Hospital District of Helsinki and Uusimaa (2007–2009) and the Mayor of Oulu (1999–2006). Nenonen has served as Deputy Chair of the Board of Directors of Keva (Local Government Pensions Institution) since 2013. He served as Chair of the Board of Directors of Technopolis Oyj from 2000 to 2005. Nenonen holds a Master of Arts degree.

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 Remuneration Committee
- Independent of Company's major shareholders

Timo Pekkarinen has been a member of the Board of Directors of Hoivatilat since 2008, and he served as the company's CEO from 2008 to 2010. Pekkarinen serves as Chair of the Board of Directors of Rakennusliike Lapti Oy and as a Board member at Tirinom Oy. Pekkarinen has served as the CEO of Lapti Group Oy since 1 January 2018. He also served as Chair of the Board of Directors of LapWall Oy from 2011 to 2018. Pekkarinen served as the Deputy CEO and CEO of Kastelli Group Oy from 2017 to 2018. Pekkarinen served as the CEO of Rakennusliike Lapti Oy from 2000 to 2017. He studied construction technology at Sheffield Hallam University in 1995–1996 and holds a degree in construction engineering from the Oulu Institute of Technology (1997).

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 temporary CEO of the Pohjanmaan Arvo investment cooperative as of 1 January 2019, until its new CEO assumes their position. Tauriainen serves as Chairman of the Board of Directors of MekaPro Oy, Arvo Invest Nordic Oy ja Sanerall Group Oy and as a Board member at Nordic Option Oy, Lapwall Oy, Propria Oy, Temotek Oy and Temotek Palvelut Oy. Tauriainen has extensive and varied experience in senior roles in strategic and operational management, finance, financial management and human resources management in the real estate sector, the banking sector and the mobile phone ODM business. Tauria served as the CFO and Deputy CEO of Technopolis Oyj until 31 July 2017. Prior to joining Technopolis, Tauriainen worked as CFO at Flextronics ODM Finland Oy from 2001 to 2004. Tauriainen graduated with a Master of Arts degree from the University of Oulu in 1982.

2.3. Board committees

The preparation of proposals to the Board of Directors can be improved by establishing Board committees to study matters more extensively. To make its work 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. In addition, The Board of Directors has established the Municipality Committee for the annual general meeting period to contribute the company's success in municipality market segment.

The Committees have no independent decision-making power, but they serve as preparatory bodies and prepare matters to be decided on by the Board. 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 measures proposed by the Committees. The Annual General Meeting determines the remuneration of the Committee members.

2.3.1. Audit Committee

The Audit Committee prepares matters concerning the Company's financial supervision and reporting. From 1 January to 27 March 2018, the Audit Committee consisted of Reijo Tauriainen (Chair), Mammu Kaario and Timo Pekkarinen. On 27 March 2018, the Board of Directors elected Reijo Tauriainen (Chair), Harri Aho and Kari Nenonen as the members of the Audit Committee.

The Audit Committee convened six (6) times during the 2018 financial year. Its members' meeting attendance rate was 94% (Reijo Tauriainen 6/6, Harri Aho 4/4, Kari Nenonen 4/4, Mammu Kaario 2/2 and Timo Pekkarinen 1/2).

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

The main duties of the Audit Committee include:

- Monitoring the financial statements reporting process
- Controlling the financial reporting process
- Monitoring the efficiency of the company's internal control, internal audits and risk management systems
- Discussing the general description of the internal control and risk management systems related to the company's financial reporting process that is included in its Corporate Governance Statement
- Monitoring the statutory audit of the financial statements and the consolidated financial statements
- Assessing the independence of the statutory auditor or the authorised public accountants, and the provision of supplementary services to the company in particular
- Preparing the draft resolution concerning the election of the auditor.

The Board of Directors of the company appoints the Chair and the members of the Audit Committee. The Audit Committee consists of three (3) Board members, of whom at least one (1) must have expertise in accountancy, bookkeeping or auditing. The members of the Committee are independent of the company.

The Audit Committee convenes at least four (4) times a year, and the CEO and the CFO of the Company also regularly participate in its meetings. The auditors of the company may also attend the Audit Committee's meetings. The Committee members may also meet with external auditors without representatives of the executive management being present at the meeting.

2.3.2. Compensation Committee

The Compensation Committee prepares matters concerning the remuneration of the CEO and the company's other management, as well as compensation systems for other personnel. From 1 January to 27 March 2018, the Compensation Committee consisted of Pertti Huuskonen (Chair), Satu Ahlman and Mammu Kaario. On 27 March 2018, the Board of Directors elected Pertti Huuskonen (Chair), Satu Ahlman and Timo Pekkarinen as the members of the Compensation Committee.

The Compensation Committee convened six (6) times during the 2018 financial year. Its members' meeting attendance rate was 100% (Pertti Huuskonen 6/6, Satu Ahlman 6/6, Mammu Kaario 2/2 and Timo Pekkarinen 4/4).

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

The main duties of the Compensation Committee include:

- Preparing matters related to the salaries and other financial benefits of the senior management
- Preparing matters concerning the company's remuneration systems
- Assessing the remuneration of the CEO and other senior management, as well as ensuring the adequacy of the remuneration systems
- Answering questions related to the salary and remuneration statement at the Annual General Meeting
- Preparing matters related to the nomination of the CEO and other senior management, as well as surveying their potential successors
- Planning the remuneration of other personnel and the development of the organisation.

The Board of Directors of the Company appoints the Chair and the members of the Compensation Committee. The majority of the members of the Committee must be independent of the company, and the CEO or other Board members included in senior management may not become members of the Committee.

The Compensation Committee convenes at least two (2) times a year. The Compensation Committee may use external experts, if necessary. In such a case, the Committee must ensure that the advisor is not serving as an advisor to the operative management in any manner that might lead to a conflict of interest.

2.4. Shareholders' Nomination Board

The main duty 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 prepare well-founded proposals related to the election and remuneration of the Board members to the Annual General Meeting. The Shareholders' Nomination Board was established to operate until further notice. Its members' term of office will end once a new committee has been appointed. The Shareholders' Nomination Board consists of three members appointed by shareholders. The Chair of the company's Board of Directors participates in the Nomination Board's work as an expert.

The three shareholders who hold the largest proportions of voting rights based on shares in the company on 1 September are entitled to appoint members to the Nomination Board. The largest shareholders are determined based on the shareholder register maintained by Euroclear Finland Ltd and flagging notifications received by the company. Shares owned by a shareholder will be deemed to include shares owned by a controlled entity in accordance with chapter 2, section 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 is 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 elects a Chair from among its members. The term of office of the members of the Nomination Board ends once the new Shareholders' Nomination Board has been appointed annually. The Shareholders' Nomination Board convenes at least once a year.

Based on shareholdings on 1 September 2018, the following shareholders' representatives were elected to the Nomination Board:

- **Minna Åman-Toivio** (Chair), Deputy Chair of the Board of Directors of Partnera Oy, which owns the share capital of Nurture Property Holding Oy and Nurture Real Estate Holding Oy;
- **Timo Leskinen**, Chief Investment Officer of OP Asset Management at OP Financial Group, which manages OP mutual funds; and
- **Johannes Wingborg**, Corporate Governance Manager, Länsförsäkringar Fondförvaltning AB.

Minna Åman-Toivio, who served as Partnera Oy's representative on the Shareholders' Nomination Board, announced that she would resign her memberships of the board on 11 December 2018, as Partnera had sold almost all of its shares in Hoivatilat.

Konstsamfundet r.f. and Kusinkapital Ab announced on behalf of a company to be established (2Care Capital Ab) on 13 November 2018 that the company's total number of shares in Hoivatilat had increased to 14.81%, making 2Care Capital Ab the largest shareholder of Hoivatilat. 2Care Capital announced on 17 January 2019 that Stefan Björkman, CEO of Föreningen Konstsamfundet r.f., would serve as 2Care Capital's representative on the Shareholders' Nomination Board.

2.5. CEO

The Chief Executive Officer (CEO) is in charge of the company's day-to-day management in accordance with the instructions and orders of the Board of Directors. The CEO is responsible for ensuring that the company's accounting practices comply with the 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 measures taken as soon as possible.

Jussi Karjula, Jussi Karjula, born 1975, has served as the CEO of Hoivatilat since 2010. Karjula has also served as the chairman of the Board of Directors of Hoivatilat AB, which is a subsidiary of Suomen Hoivatilat Oyj, responsible for business operations in Sweden. Karjula has been a member of the Board of Directors of Lännentila Oy since 2013. Prior to joining Hoivatilat, Karjula was the CEO of Pohjoisen Kantaperuna Oy (now Perunamestarit Oy) in 2003-2010. Karjula graduated with 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, other management of the company includes the Executive Team. The Executive Team meets once a month on average, and at other times as needed. The Executive Team supports 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 2018, the Hoivatilat Executive Team consisted of the following members:

Riku Patokoski, b. 1973, architect, Deputy CEO. Joined Hoivatilat in 2018.
Tommi Aarnio, b. 1983, M.Sc. (Econ.), CFO. Joined Hoivatilat in 2015.
Juhana Saarni, b. 1988, BBA, Real Estate Director. Joined Hoivatilat in 2011.
Riikka Säkkinen, b. 1979, M.Sc. (Econ.), Communications Director. Joined Hoivatilat in 2014.
Antti Kurkela served as a member of the Executive Team until 4 December 2018.

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

DIRECT AND INDIRECT SHAREHOLDINGS OF THE CEO AND THE EXECUTIVE TEAM

	31 Dec 2018	31 Dec 2018
Name	**Number of shares owned**	**Shares owned as percentage of stock**
Jussi Karjula	361,916	1.42%
Riku Patokoski	1,200	0.00%
Tommi Aarnio	70,000	0.28%
Juhana Saarni	21,053	0.08%
Riikka Säkkinen	26,915	0.11%
Total	**481,084**	**1.89%**

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 recogn

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:v

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 are 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 2018 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 2018 were approximately EUR 37,898. In addition, the auditor was paid a total of approximately EUR 8,615 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/en**. The statement is updated regurarly.

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 60 Finnish municipalities. It has started over 180 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 2018, the Hoivatilat Group consisted of Suomen Hoivatilat Oyj and 131 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.

Financial guidance for 2019

Hoivatilat expects its total revenue to be around EUR 23 million in 2019. Its operating result is estimated to be around 40% of revenue. The fair value of investment properties at the end of 2019 is estimated to be EUR 440–470 million. The guidance is based on the assumption that, in 2019, the company will not make significant purchases or sales of completed investment properties, and that the market yields used in the valuation of real estate will remain at their current level.

Significant events during the financial year

A total of 36 (34) properties were completed during the financial year: four in the Uusimaa region, four in the Turku region, three in the Iisalmi, Jyväskylä, Lahti and Oulu regions, two in Ylivieska and two in Mikkeli. Individual projects were also completed in Tampere, Turku, Hämeenlinna, Eura, Kajaani, Kalajoki, Lappeenranta, Pori, Raahe, Rovaniemi, Sastamala, Sotkamo, Uusikaupunki, Varkaus and Vaasa.

The Board decided to issue stock options to key personnel. These options were used to subscribe for 150,370 new shares in the company at a subscription price of EUR 0.01 per share. The decision to issue the options was based on the authorisation given to the company's Board of Directors at the Annual General Meeting on 18 February 2016, and on the terms and conditions of the company's existing share reward system. The stock options have been issued to encourage and maintain the commitment of the company's personnel and management. The company therefore had a weighty financial reason to issue share options. Shares subscribed for with options may not be released until the end of the vesting period, on 31 December 2019.

(Stock exchange release 28 February 2018)

In April 2018, Hoivatilat agreed EUR 50 million in long-term financing with the European Investment Bank (EIB). The first loan of EUR 30 million was signed for at the same time. The financing agreed with the EIB, with other bank financing, enables a project portfolio of approximately EUR 100 million to be implemented.

(Stock exchange release 23 April 2018)

The company's Board of Directors decided to establish a subsidiary in Sweden. Maria Frid started as the CEO of Hoivatilat Ab at the beginning of September 2018.

(Stock exchange release 5 June 2018)

The company launched a new product category: prefabricated day-care centres. The first prefabricated day-care centre was completed in Raahe at the end of 2018.

(Stock exchange release 13 June 2018)

In June, the company announced that it would implement the Kuopio Portti project in the city centre of Kuopio. A total of 65 residential care and assisted living apartments will be built and owned by Suomen Hoivatilat Oyj in the form of real estate company.

(Stock exchange release 13 June 2018)

Hoivatilat sold a portfolio of seven properties in August 2018. The debt-free purchase price was EUR 16.4 million, with a sales gain of around EUR 1.0 million.

(Stock exchange release 30 August 2018)

The first school project started in Siilinjärvi. The school is expected to be completed in August 2019, with the municipality of Siilinjärvi as the tenant.

(Stock exchange release 17 September 2018)

Sales Director Antti Kurkela announced that he would leave the company on 1 February 2019. The company immediately started the recruitment of a new sales director, with CEO Jussi Karjula as the temporary head of the customer relationship team.

(Stock exchange release 4 December 2018)

GROUP'S KEY FIGURES		
EUR 1000	IFRS Group 31 Dec 2018	IFRS Group 31 Dec 2017
Total revenue	17,182	12,373
Operating profit	48,480	33,317
Profit for the financial year	37,003	25,504
Operational result	7,663	5,436
Sum total on the balance sheet	364,288	258,071
NAV, EUR thousand	185,304	143,346
NNAV, EUR thousand	161,937	129,136
Equity ratio, %	44.5%	50.1%
Loan-to-value (LTV), %	45.6%	40.6%
Net gearing, %	98.2%	77.6%
Return on equity, %	25.4%	25.0%
Earnings per share (undiluted), EUR	1,46	1,05
Earnings per share (diluted), EUR	1,45	1,04
Dividend per share*	0,17*	0,13
Operational result per share, EUR	0,30	0,22
NAV/share, EUR	7,28	5,67
NNAV/share, EUR	6,37	5,11
Net return, %	6.15%	6.46%
Value of the agreement portfolio**	426,953	316,046
Average maturity of the agreement portfolio (years)	14,9	14,4
Economic occupancy rate, %	100%	100%
Number of shares adjusted for the share issue at the end of the period	25,439,229	25,288,859
Average number of shares adjusted for the share issue during the period	25,414,511	24,228,585
Average number of shares adjusted for the share issue during the period, diluted	25,491,042	24,408,357
Number of employees at the end of the period	19	15
Average number of personnel during the period	17	13

* Proposal of the Board of Directors
** Future rental cash flow from the company's leases and letters of intent without index increases

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

Urbanisation is increasing and the population is ageing in both Europe and Finland. Over the past two decades, the population of the Helsinki-Uusimaa region has increased by almost 500,000 people. Approximately 70 per cent of the country's population is already living in and around the 14 largest towns and cities. Finland has the most rapidly ageing population in Europe. The number of people aged over 75 will nearly double over the next two decades. At the end of 2017, the number of people aged over 75 in Finland was 502,000, and this is predicted to increase to 925,000 by the end of 2040 (stat.fi). The trend is very similar in Sweden: the number of people aged over 75 will increase by 50 per cent by 2030.

In recent years, the health and social services reform has been one of the most debated issues in Finland. Its key goal is to ensure good services to everyone in the ageing and urbanising Finland. In addition, the reform is expected to bring cost savings of around EUR 3 billion in the future. The laws related to the combined regional government reform and health and social services reform are currently being processed by the Finnish parliament. The statement of The Constitutional Law Committee of the Parliament of Finland is currently being awaited.

During the combined regional government reform and health and social services reform, new regions will be established, new tasks will be assigned to the regions, and the structure and funding of health and social services will be reformed. The reform is intended to come into effect on 1 January 2021. With the reform, responsibility for health and social services, rescue operations and growth services will transfer to the regions.

The Freedom of Choice Act is a part of the health and social services reform. The purpose of the act is to enable social welfare and healthcare customers to choose their service provider and to improve the availability and quality of services. With the population ageing, the need for housing and nursing services will increase strongly, and both private and third sector service providers play, and will continue to play, a key role. This trend is likely to gain momentum, regardless of whether or not the health and social services reform is implemented in its intended form.

The state and municipal portfolio of education, culture, social services and healthcare properties includes a large number of old buildings nearing the end of their life cycle, as well as properties with indoor air problems and a maintenance backlog that require renovation.

Hoivatilat estimates that the following market trends identified by the company will support its growth:

- Ageing population and the weakening dependency ratio
- Urbanisation and centralisation of the population
- Increased debt in the public sector
- Service structure reform in social welfare and healthcare services
- The state of day-care and school properties in the culture and education market
- Increased use of service vouchers in early education services

Financial operating environment

The Ministry of Finance forecasts that GDP growth in Finland will slow to 1.5 per cent in 2019. With trade obstacles increasing, global trade will also slow, which will be reflected in exports and investment expectations. Investment growth is expected to slow markedly in 2019, due to a decline in construction investments in particular. Economic growth will continue to slow to 1.3 per cent in 2020 and to less than 1 per cent over the medium term thereafter.

According to the RAKSU group, which studies business cycles in the construction sector, the number of new projects in construction subsectors other than residential construction will begin to decrease in 2019, despite industrial investment. The cubic volume of building permits for commercial properties decreased particularly strongly in 2018. However, many major projects are still in progress, and their construction continues in 2019.

The cubic volume of building permits for properties other than residential buildings decreased by 10 per cent in January–November 2018 year-on-year. However, the cubic volume of building permits for public service buildings and industrial buildings increased compared with the previous year. Public service construction – including hospitals and schools, for example – continues to grow, with an increase of 6 per cent in the cubic volume of building permits in January–November 2018 compared with the previous year. Schools and hospitals have higher unit prices, with a long-lasting effect on construction volumes.

Interest rates are expected to remain low in the near future. The Bank of Finland predicts that interest rates will increase slightly over the next few years. According to its forecast, short-term interest rates will remain negative or at zero level for 2019–2020, and ten-year bond interest rates will remain at around 1%. In its report issued in December, the Bank of Finland states that the most rapid period of growth is over in Finland, although growth will continue for the next three years.

Sources: Economic review, 19 December 2018, at vm.fi and eurojatalous.fi on 19 January 2019.

Research and development

During the 2018 financial year, Hoivatilat invested particularly strongly in new concept development. The first modular, movable day-care facilities were developed and implemented in Raahe, and a school project in line with the same concept is in progress in Mikkeli.

The service community concept was further developed during the year. Customers, designers, operators and municipal representatives were included in the development work. Toiveiden kortteli concept, which was developed at various workshops, was launched at the Kuntamarkkinat municipal fair in September 2018. This concept will be used to implement a service community for the Housing Fair Finland event in Tuusula in the summer of 2020, to name just one example.

Development work to reduce the lifetime energy costs of properties continued during the year. In addition to the earlier adoption of intelligent heating and lighting systems, day-care facilities with intelligent ventilation systems were completed in 2018. In need-based, facility-specific ventilation, sensors measure the carbon dioxide content and temperature of a space, and controllers make it possible to maintain good air quality throughout the day.

During the year, significant development work was also carried out to improve the efficiency of the company's internal processes. The Salesforce system was introduced for coordinating construction projects and managing them by information.

FINANCIAL REVIEW 1 JANUARY–31 DECEMBER 2018

Financial development

The Group's revenue was EUR 17.2 (12.4) million, representing an increase of 38.9% year-on-year. The revenue consisted entirely of rental income. The increase in revenue was mostly due to considerable growth over the past 12 months in the number of properties that the company has leased.

The income from measuring properties at fair value was EUR 35.6 (25.1) million in the review period, and gains from divestments of investment properties totalled EUR 1.0 (0.0) million. The fair values of completed investment properties increased, mainly due to a decrease in the required rate of return and an increase in net rental income. The fair values of investment properties that were completed or under construction during the review period increased due to a decrease in the required rate of return, increased project completion rates and development margins recognised according to the level of completion. Due to the decrease in the required rate of return in the market, the company's net return in proportion to the fair value of its properties decreased by 0.31 percentage points during the financial year (from 6.46% to 6.15%). In the comparison period, the company's net return in proportion to its properties decreased by 0.46 percentage points (from 6.92% to 6.46%).

The net rental income for the review period was EUR 15.9 (11.4) million, representing an increase of 39.7%. At the end of the review period, the company had 120 (90) completed properties generating rental cash flow. Their net income rate was 6.15% (6.46%). The decrease in the net rental income rate was mostly due to a decrease in the required rates of return used in measuring the value of investment properties.

Property maintenance expenses totalled EUR -1.3 (-1.0) million. Property maintenance expenses increased by 29.2% year-on-year. The increase is mostly explained by an increase in the property portfolio compared with the corresponding period of the previous year.

Expenses arising from employment benefits were EUR -2.5 (-1.9) million, representing an increase of 30.0%. The average number of employees was 17 (13) during the review period. Administrative expenses were EUR -1.9 (-1.2) million, representing an increase of 51.4% compared with the previous year. The increase was due to investments in future growth in Finland and Sweden and in project development in particular.

The operating profit was EUR 48.5 (33.3) million, with an increase of 45.5%.

Net financial income and expenses were EUR -2.1 (-1.4) million. Taxes based on the taxable income for the review period were EUR -0.0 (-0.3) million, and deferred taxes mainly due to the changes in the fair values of properties amounted to EUR -9.4 (-6.1) million.

The net profit for the period was EUR 37.0 (25.5) million, showing an increase of 45.1% from the previous year. Undiluted earnings per share were EUR 1.46 (1.05), and diluted earnings per share were EUR 1.45 (1.04).

The operating result for the financial year was EUR 7.7 (5.4) million, representing an increase of 41.0%. The operating result was 44.6% (43.9%) of revenue. Hoivatilat AB, a Swedish subsidiary, started its operations in the autumn of 2018. The company's operations in Sweden did not generate any income in the 2018 financial year. The expenses for the financial year, EUR 0.1 million, mainly consisted of salary and other expenses included in the consolidated income statement.

Investments

The consolidated balance sheet total at the end of the financial year was EUR 364.0 (258.1) million, showing an increase of 41.0% compared with the previous financial statements. During the review period, investments with a total acquisition cost of EUR 81.5 (67.2) million were made in the properties. Investments increased by 21.2% year-on-year and mainly consisted of the construction of new projects.

On 30 August 2018, the company sold seven properties, with the debt-free purchase price being EUR 16.4 million. The sales gain from the transaction was around EUR 1.0 million.

Funding

The company's interest-bearing liabilities stood at EUR 170.4 (110.1) million at the end of the review period. The net amount of interest-bearing liabilities increased by EUR 60.4 (38.1) million during the financial year. The company's financial assets on 31 December 2018 stood at EUR 41.5 million, consisting of cash assets (EUR 11.4 million), undrawn credit facilities (EUR 6.1 million), undrawn investment loans based on loan agreements (EUR 14.0 million) and the undrawn portion (EUR 10.0 million) of the loan based on the financing agreement with the European Investment Bank. In addition, the company has an option for EUR 20 million in additional funding from the EIP on the terms and conditions of an earlier agreement.

According to the company's interest rate hedging policy, 30–50% of the Group's loan portfolio is hedged by interest rate swaps so that the average interest rate maturity is two years, plus or minus six months. The hedging coverage ratio of the company's loan portfolio was 35.8% (37.3%) on 31 December 2018, and the average interest rate maturity of its loan portfolio was 1.93 (1.97) years.

PROPERTIES

	Completed		In progress and not started*		Total	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Number of properties	120	90	39	39	159	129.0
Leasable area, thousand floor m²	105.2	78.5	45.8	34.4	151.0	112.8
Annual rents, EUR million	21.5	15.9	8.4	6.6	29.9	22.5
Investment (acquisition cost), EUR million	237.8	170.7	122.1	81.8	359.9	252.5

* = Properties in progress and not started also include properties for which binding leases or preliminary agreements have been signed, but construction has not yet begun.

Properties and agreements

On 31 December 2018, the company had 120 (90) completed properties generating rental cash flow. In addition, properties under construction or in the start-up phase totalled 39 (39). During the financial year, a total of 36 (34) new projects were completed, one of which the company acquired as completed. Seven properties were divested during the financial year.

On 31 December 2018, the company had a total of 159 (129) leases (including preliminary agreements), which were divided between 31 (30) customers. The value of the lease portfolio was EUR 427.0 (316.0) million, and the average maturity of the entire lease portfolio was 14.9 (14.4) years. The company's three largest key customers accounted for approximately 54% (55%) of its lease portfolio on 31 December 2018. The largest customer's share of the lease portfolio was 27% (23%). The second-largest customer's share was 17% (22%), and that of the third-largest customer was 9% (10%). Otherwise, the company has a diverse customer base in both day-care centres and nursing homes. The company's most important tenants are Finland's largest chains in the nursing and day-care sector, in addition to well-known brands.

Of the lease portfolio, 65% (60%) consisted of rental income from properties located in the Greater Helsinki area/ Uusimaa region and the Tampere, Lahti, Turku, Oulu, Kuopio and Jyväskylä regions. Of the lease portfolio, 20% (22%) consisted of properties in other municipalities with more than 30,000 residents, and 15% (18%) consisted of properties located in municipalities with fewer than 30,000 residents.

LOCATION

Share of the agreement base	31 Dec 2018	31 Dec 2017
Greater Helsinki area / Uusimaa region	21%	21%
Lahti region	7%	8%
Tampere region	7%	8%
Turku region	10%	8%
Oulu region	8%	5%
Kuopio region	8%	5%
Jyväskylä region	5%	5%
Other municipalities with more than 30,000 residents	20%	22%
Other locations	15%	18%
Total	100%	100%

Shares and shareholders

The number of the company's shares on 31 December 2018 was 25,439,229 (25,288,859). The company holds no treasury shares. The closing price of the company's shares on 31 December 2018 was EUR 7.90 (7.30) and the combined market value of the shares was EUR 201.0 (184.6) million. During the review period, the highest closing price was EUR 8.53 (9.12), with the lowest being EUR 7.20 (7.00). A total of 9.3 (6.5) million shares in Suomen Hoivatilat Oyj were traded during the year. On 31 December 2018, the company had a total of 8,913 (8,243) shareholders.

Flagging notifications

- On 13 November 2018, Partnera Oy announced that its and its controlled companies' (Nurture Property Holding Oy and Nurture Real Estate Holding Oy) total number of shares and votes in Hoivatilat had fallen below 15%, 10% and 5% on 12 November 2018.

- On 13 November 2018, Konstsamfundet r.f. and Kusinkapital Ab announced on behalf of a company to be established (2Care Capital Ab) that the company's total number of shares and votes in Hoivatilat had exceeded 5% and 10% on 12 November 2018.
- On 24 December 2018, Clearance Capital Limited announced that its managed mutual funds' total number of shares and votes in Hoivatilat had exceeded 5%.

Group structure

At the end of the financial year on 31 December 2018, the Hoivatilat Group consisted of its parent company, Suomen Hoivatilat Oyj, and its Swedish subsidiary, Hoivatilat AB, which was established during the financial year, as well as 131 (109) mutual real estate companies. The parent company owns 100% of all Group companies. During the financial year, all shares in the following 7 real estate companies were divested: Koy Oulun Ukkoherrantie; Koy Uudenkaupungin Salmenkatu; Koy Paimion Kämmekkä; Koy Ulvilan Peltotie; Koy Nurmijärven Vehnäpellontie; Koy Kouvolan Toukomiehentie B; and Koy Turun Kukolantie.

Assessment of operational risks and uncertainties

Financial and strategic risks

The uncertainty in the global economy and the financial markets may affect the company. If the Finnish economy develops unfavourably in the future and regional differences grow, this may have an adverse effect on the company's operations, result, financial position and/or future outlook.

Strategic risks include the competitive situation in the market and dependence on a limited number of customers. Interest in the sector as an investment has grown considerably, which has resulted in new operators entering the market. The company's future growth depends on the successful implementation of the company's business strategy.

The property projects owned by Hoivatilat have been designed and developed to be used as nursing homes and day-care centres and for service communities combining these services. However, the company ensures as early as the design stage of property projects that the premises can be modified and thus also used for purposes other than nursing homes and day-care centres. Nevertheless, it is not certain that the use of the properties for other purposes, such as residential or office use, would necessarily be possible if there were no longer a need according to the original purpose. If realised, this risk may have a material adverse effect on the company's business operations, result, financial position and/or future outlook. Considerable changes in legislation and official regulations may also affect the company's business operations and, subsequently, the demand for properties.

The company's strategic objective is to grow faster than the market. According to the estimate of the management of Hoivatilat, the company may pursue result growth primarily through the implementation of new property projects and an increase in revenue. According to the management's estimate, the implementation of new property projects and an increase in revenue in accordance with the objective requires finding new property projects, developing and expanding existing customer relationships, obtaining new customers and expanding the operations geographically. There is no guarantee that the company succeeds in finding new property projects or obtaining new clients.

Operational risks

Operational risks include dependence on the competence of the key employees and possible changes in the demand for the properties produced by the Group. The realisation of any risk related to the company's nature as a growth company may have a material adverse effect on the company's business operations, result, financial position and/or future outlook.

The three largest customers of Hoivatilat represent around 54 per cent of its lease portfolio. There is no guarantee that the company's largest customers will remain solvent. Changes in key customers' operating environments, strategies or behaviour, or the loss of rental income from one or more key customer, may have material adverse effects on the company's business operations, business result, financial position and/or future outlook.

Accident risks

Accident frequency in the construction industry is higher than in many other sectors. Construction sites are by nature dangerous work environments, where serious injuries or even fatal accidents can happen. Any and all accidents have an adverse effect on the company's business operations and personnel wellbeing. Accident investigations carried out in cooperation with the authorities involve costs and delay construction. The company's insurance premiums increase if the accident frequency becomes higher. In addition, accidents may result in civil and criminal liabilities, based on applicable laws, for the company and its management and employees. Accidents may also harm the company's reputation. The realisation of any risk related to employees' health and safety may have a material adverse effect on the company's business operations, result, financial position and/or future outlook.

The company's properties are built by reliable and experienced construction companies that are typically responsible for the entire project. Risks related to construction and property maintenance can be considered to include any moisture damage and indoor air impurities, which may cause interruptions in the operations of Hoivatilat and have an adverse effect on its reputation. The company has prepared for such risks through clauses in agreements and by taking into account that the contractor's guarantee for built facilities is two years and their responsibility spans ten years in accordance with the general terms and conditions concerning turnkey projects.

The company estimates that it carries insurance cover typical of the industry and sufficient insurance cover in case of common accidents. The company has insured its properties with full-value insurance. The company's management and Board of Directors have valid liability insurance.

Financial risks

Expanding the scope or geographical area of the operations requires sufficient working capital and availability of both equity and external capital. A potential uncertain situation prevailing in the financial market, potential general weakening in available funding and increased financial expenses may have an adverse effect on the company's opportunities to obtain additional funding in the future or may weaken the liquidity of properties, which could result in difficulties selling the properties.

Changes in the interest rate level have a considerable impact on the property business. Changes in the market rates and interest rate margins may impact the company's financial expenses and income. Changes in the interest rate level affect the interest rate expenses of the company's variable-rate loans, which will increase as the market rates increase. The company carefully monitors the development of the interest rate level and actively hedges against the impact of changes in the interest rates. The company primarily uses interest rate swaps to manage the interest rate risk. The fair value of the interest rate swaps and the payable and receivable cash flow in accordance with the agreement depend on the changes in the interest rate level. Profit or loss generated by the agreements to the company has not been limited, and thus a considerable decrease in the interest rate level, for example, may result in interest rate swaps having a material adverse effect on the company's cash flow, financial position and/or future outlook. Although the company believes that it can manage its interest rate risks, it is not certain that the company's hedging measures are effective or that the interest rate fluctuations do not have a material adverse effect on the company's cash flow, financial position and/or future outlook.

The company's rental receivables are associated with a risk of clients not being able to repay their loans when the loans fall due. As a rule, the company's leases include a security deposit equal to 3–6 months of rent, which from the company's perspective reduces the risks and loss of income caused by clients' potential financial difficulties. The occupancy rate of the properties and the financial situation of the tenants are monitored by means of regular meetings and financial monitoring.

Responsibility and environmental considerations

The operations of Hoivatilat are guided by the company's values: helping the customer; creating value for customers, shareholders and society; rapid responses and straightforward operations; and boldness. In 2018, the company implemented a project to determine the content of its corporate responsibility and key sustainability focuses. During the process, the company also determined the data that serves as the basis for assessing its sustainability development in the future. The company's operations are divided into four areas, which determine its sustainability themes.

Its most important sustainability focuses include a customer-oriented offering and operating methods, environmental responsibility, people's well-being, and profitable business operations. The company's vision is to create a superior customer experience as a developer of properties for education, culture, social services and healthcare. In terms of its customer-oriented offering and operating methods, the company focuses on a superior customer experience and the continuous development of the user experience. Hoivatilat works to create functional, safe and flexible facilities for care and education.

Themes related to environmental responsibility include energy efficiency, renewable materials and forms of energy and a minimal carbon footprint. The company favours ecological heating methods in its properties. Customers are increasingly interested in ecological solutions and hybrid heating methods. In terms of lighting, LED lighting is highly suitable for day-care centres, nursing homes and schools, where lighting is often needed around the clock. All the company's properties are under remote monitoring. This enables the centralised management of heating and ventilation of the properties from one location, as well as making it possible to affect property life cycles, adjust heating according to the conditions and ensure optimal ventilation.

Concerning people's well-being, Hoivatilat works to provide its employees with interesting and meaningful jobs while also being an inspiring and continuously developing working environment. Our primary mission is to create a better society and better service environments with our partners. In implementing its mission, the company works to be a reliable, uncomplicated and responsible partner.

Hoivatilat engages in responsible and profitable business operations. The company works to be a profitable investment for its shareholders through shareholder value and dividend development. As well as being profitable, its operations must be continuous. Efficient operations and a high occupancy rate (100%) are important principles of profitable business operations.

Personnel

Hoivatilat provides solutions for growth. Our company grows with its customers and partner network. All our operations focus on our customers, and our employees seek to offer a superior customer experience in providing properties for culture, education, social services and healthcare.

Our operating method is based on networks. A small, highly efficient team is responsible for the coordination and development of networks. This team focuses on key project tasks, such as customer relationship management, administration, project development, construction and property management. 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 managing its current property portfolio.

At the end of 2018, Hoivatilat had a CEO and 18 employees. The company had 11 employees in Oulu, 7 in Espoo and 1 in Stockholm. Four new employees were recruited during the year to strengthen competence in construction, administration, marketing, new business concept development and international operations. The company is headquartered in Oulu, with offices in Espoo and Stockholm.

On 12 June 2018, the company's Board of Directors decided to continue the long-term personnel share reward programme approved by the 2018 Annual General Meeting. The system will be established as part of the incentive and loyalty system for the personnel of the company and its subsidiaries. The purpose is to unify the goals of the owners and the employees to raise the value of the company over the long term, as well as to keep the employees engaged with the company and offer them a competitive reward system based on the earning and accumulation of company shares. The system has two earning periods, 1 June 2018 to 30 November 2019, and 1 June 2018 to 31 May 2021. The earning criterion to be applied to the share reward programme is total shareholder return (TSR) during the earning period. Under this programme, a maximum of 250,000 shares will be paid out to employees, as well as a cash portion to cover the taxes incurred by the participants on the rewards.

Board of Directors and company's management

The members of the Board of Directors of Hoivatilat are Pertti Huuskonen (chairman), Satu Ahlman, Harri Aho, Kari Nenonen, Timo Pekkarinen and Reijo Tauriainen. Mammu Kaario served as a member of the Board until 27 March 2018.

The members of the Audit Committee are Reijo Tauriainen (chairman), Harri Aho and Kari Nenonen. The members of the Remuneration Committee are Pertti Huuskonen (chairman), Satu Ahlman and Timo Pekkarinen.

The Shareholders' Nomination Board consists of Stefan Björkman, Kalle Saariaho and Johannes Winborg. Pertti Huuskonen, Chairman of the Board of Directors of Suomen Hoivatilat Oyj, serves as an expert member on the Nomination Board.

The Group's management team consists of CEO Jussi Karjula, deputy CEO Riku Patokoski, CFO Tommi Aarnio, property director Juhana Saarni and communications manager Riikka Säkkinen. Antti Kurkela served as a member of the management team until 4 December, 2018.

Decisions of the Annual General Meeting

The Annual General Meeting of Hoivatilat was held on 27 March 2018 in Oulu. The Annual General Meeting confirmed the financial statements and discharged the members of the Board of Directors and the CEO from liability for the 2017 financial year. KPMG Oy Ab, Authorised Public Accountants, was selected as the company's auditor, with APA Antti Kääriäinen as the principal auditor.

A dividend of EUR 0.13 per share was paid on 9 April, 2018 in accordance with the Annual General Meeting's decision. In addition, the Annual General Meeting authorised the Board to decide on the acquisition of treasury shares and the issuance of new shares and special rights, as proposed by the Board. The Annual General Meeting also approved an amendment to the Articles of Association with regard to the venue of the Annual General Meeting, as well as the Nomination Board's proposal for the composition of the Board and Board members' fees. Its decisions were announced on 27 March 2018. They are also available on the company's website.

Events after the review period

No significant events after the review period.

Financial targets for 2019–2021

Suomen Hoivatilat Oyj has set the following financial targets for 2019–2021:

- Average annual increase of 30% in revenue
- Average operating profit at 40% of revenue
- Average equity ratio of at least 30%. The equity ratio includes the effect of the IFRS 16 standard as of 1 January 2019.

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.

Board of Directors' proposal for the distribution of profit

The parent company's distributable funds stood at EUR 163,393,199 at the end of the financial year. The Board of Directors proposes to the Annual General Meeting of 26 March 2019 that the company's distributable funds be used to distribute a dividend of EUR 0.17 per share, or EUR 4,324,668.93 in total, using the number of shares on the balance sheet date. The proposed dividend is approximately 56.4% of the operating result for the financial year.

In line with its dividend distribution policy, Hoivatilat seeks to distribute at least 50% of its operating result as dividends. If dividend is distributed, all the company's shares entitle shareholders to receive the same dividend. The operating result reflects the profitability of the company's operations, excluding the impact of the change in the fair value of the properties. In accordance with the dividend policy, the company's distribution of dividends is based on the operating result.

There have been no material changes in the financial position of Hoivatilat since the end of the financial year. The liquidity of Hoivatilat is good, and the proposed distribution of profits will not endanger the company's solvency in the view of the Board of Directors.

General Meeting

The 2019 Annual General Meeting will be held in Helsinki on 26 March, 2019 at 3 p.m.

Financial calendar for 2019

The interim report for January–March 2019 will be published on 8 May, 2019. Hoivatilat's half-year financial report for January–June will be published on 22 August, 2019, and an interim report for January–September on 6 November, 2019.

SHARE INFORMATION

LARGEST REGISTERED SHAREHOLDERS 31 DECEMBER 2018		
Shareholder	**Shares**	**%**
2 Care Capital Ab	3,767,012	14.81%
Skandinaviska Enskilda Banken AB	3,643,208	14.32%
OP Fund Management Company Ltd	2,071,769	8.14%
Hintsala Eino	941,439	3.70%
Nordea Bank Abp	937,490	3.69%
Timo Pekkarinen	896,489	3.52%
Milerosa Oy	604,776	2.38%
Veritas Pension Insurance Company Ltd	434,552	1.71%
Hyväri Harri Tapani	432,348	1.70%
Ilmarinen Mutual Pension Insurance Company	428,171	1.68%
Ahola Tuomas Veli	394,244	1.55%
Karjula Jussi Pekka	361,916	1.42%
Kusinkapital Ab	352,137	1.38%
Mevita Invest Oy	288,769	1.14%
OP Life Assurance Company Ltd	282,500	1.11%
Nurture Holding Companies	277,500	1.09%
Väisänen Ahti Pekka Olavi	250,000	0.98%
Investment Fund Arvo Finland Value	240,000	0.94%
Misaelma Holding Oy	224,645	0.88%
Pirkko ja Jukka Ruusu Oy	214,676	0.84%
20 largest shareholders total	17,043,641	67.0%
Other shareholders	8,395,588	33.0%
All shares total	**25,439,229**	**100.0%**

SHAREHOLDINGS 31 DECEMBER 2018				
	Number of shareholders	**Shareholders, %**	**Number of shares**	**Shares, %**
1 - 100	3158	35.4%	159,910	0.6%
101 - 500	3768	42.3%	966,141	3.8%
501 - 1 000	1029	11.5%	788,453	3.1%
1 001 - 5 000	770	8.6%	1,467,152	5.8%
5 001 - 10 000	80	0.9%	597,571	2.3%
10 001 - 50 000	62	0.7%	1,532,649	6.0%
50 001 - 100 000	10	0.1%	680,842	2.7%
100 001 - 500 000	29	0.3%	6,868,824	27.0%
500 001 -	7	0.1%	12,377,687	48.7%
Total	**8913**	**100%**	**25,439,229**	**100%**

SHAREHOLDERS BY SECTOR 31 DECEMBER 2018	Number of shares	Shares, %
Households	9,284,619	36.5%
Public sector entities	870,490	3.4%
Financial and insurance institutions	8,043,082	31.6%
Companies	6,938,365	27.3%
Non-profit entities	273,058	1.1%
Foreign ownership	29,615	0.1%
Combined total	**25,439,229**	**100.0%**
Of which nominee registered	4,771,386	

The company's shares are listed on the Nasdaq Helsinki main market on 1 March 2017.

Reserved trading code	HOIVA
ISIN code	FI4000148648
Highest price of the share during the financial year (EUR)	8,54
Lowest price of the share during the financial year (EUR)	7,17
Closing price of the share at the end of the financial year (EUR)	7,90
Market value 31 December 2018 (EUR)	200,969,909
Trading volume 1 January–31 December 2018 (pcs)	9,271,664
Number of shares 31 December 2018 (pcs)	25,439,229

KEY FIGURE FORMULAS

IFRS key figures

Earnings per share (EPS), undiluted, EUR = $\dfrac{\text{Profit for the period belonging to the parent company's shareholders}}{\text{Weighted average of the number of shares in the review period}}$

Earnings per share (EPS), diluted, EUR = $\dfrac{\text{Profit for the period belonging to the parent company's shareholders}}{\text{Weighted average of the number of shares adjusted with the dilution effect in the review period}}$

Dividend per share, EUR = $\dfrac{\text{Dividend paid for the financial year}}{\text{Number of shares entitled to dividend}}$

Alternative key figures

Equity ratio, % = $\dfrac{\text{Equity}}{\text{Balance sheet total - advances received}} \times 100$

Net gearing, % = $\dfrac{\text{Interest-bearing liabilities - cash in hand and at banks}}{\text{Equity}} \times 100$

Return on equity, % = $\dfrac{\text{Profit/loss for the financial year}}{\text{Average equity during the financial year}} \times 100$

Economic occupancy rate, % = $\dfrac{\text{Gross rents for the review period / number of months}}{\text{Potential gross rents / number of months}} \times 100$

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

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

$$\textbf{NAV per share, EUR} = \frac{\text{NAV}}{\text{Number of shares adjusted for the share issue at the end of the period}}$$

$$\textbf{NNAV, EUR thousand} = \text{NAV - deferred tax liability generated by measuring investment properties at fair value}$$

$$\textbf{NNAV per share, EUR} = \frac{\text{NNAV}}{\text{Number of shares adjusted for the share issue at the end of the period}} \times 100$$

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

$$\textbf{Loan-to-value (LTV), \%} \quad \frac{\text{Financial liabilities - Cash and cash equivalents}}{\text{Fair value of investment properties}} \times 100$$

RECONCILIATION CALCULATIONS CONCERNING CERTAIN KEY FIGURES		
Net return, %		
EUR thousand	**31 Dec 2018**	**31 Dec 2017**
Annualised rental income for the month of the financial statements	21,467	15,157
The forecast 12-month expenses of the properties generating rental income	-1,237	-864
Net rental income	20,230	14,293
Value of the investment properties generating rental cash flow for the month of the financial statements	329,000	221,270
Net return, %	**6.15%**	**6.46%**
NAV, EUR thousand		
EUR thousand	**31 Dec 2018**	**31 Dec 2017**
Equity belonging to the parent company's shareholders	161,206	129,136
Deferred tax liability generated by measuring investment properties at fair value	23,367	14,210
NAV, EUR thousand	**184,573**	**143,346**
Operational result		
EUR thousand	**31 Dec 2018**	**31 Dec 2017**
Profit for the financial year	36,273	25,504
-/+ Net gains/losses from measuring investment properties at fair value	-34,713	-25,086
-/+ Net gains/losses from divestments of investment properties	-1,049	0
+/- Taxes based on the profit for the financial year generated by the aforementioned items	210	0
+/- Deferred taxes generated by the aforementioned items	6,943	5,017
Operational result	**7,663**	**5,436**

CONSOLIDATED INCOME STATEMENT IFRS

CONSOLIDATED INCOME STATEMENT IFRS			
EUR	Note	**1 Jan–31 Dec 2018**	**1 Jan–31 Dec 2017**
TOTAL REVENUE	1, 2	**17,182,305**	**12,372,792**
Transfers of investment properties and changes in fair value	3, 10	36,675,896	25,085,586
Other operating income	1, 2	282,735	0
Expenses of employee benefits	4, 16, 24	-2,450,190	-1,884,728
Depreciation	5	-33,795	-10,070
Other operating expenses	6	-3,176,505	-2,246,523
OPERATING PROFIT (LOSS)		**48,480,446**	**33,317,058**
Financial income	7	867	585
Financial expenses	7	-2,057,609	-1,399,723
PROFIT BEFORE TAXES		**46,423,703**	**31,917,921**
Taxes for the financial year and previous periods	8	-9,420,361	-6,413,774
PROFIT FOR THE FINANCIAL YEAR		**37,003,342**	**25,504,147**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IFRS			
EUR	Note	**1 Jan–31 Dec 2018**	**1 Jan–31 Dec 2017**
PROFIT FOR THE FINANCIAL YEAR		37,003,342	25,504,147
Other comprehensive income items			
Items that may be reclassified to profit or loss later:			
Translation differences		-1,747	0
Cash flow hedging	19	-992,077	113,095
Taxes associated with other comprehensive income items	12	198,415	-22,619
Other comprehensive income items for the financial year after taxes		**-795,409**	**90,476**
COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**36,207,933**	**25,594,623**
Distribution of profit for the financial year			
To parent company shareholders		37,003,342	25,504,147
To shareholders with non-controlling interest		0	0
Distribution of comprehensive income for the financial year			
To parent company shareholders		36,207,933	25,594,623
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	1,46	1,05
Earnings per share adjusted with the dilution effect	9	1,45	1,04

CONSOLIDATED BALANCE SHEET IFRS

CONSOLIDATED BALANCE SHEET IFRS			
EUR	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets		150,285	14,016
Investment properties	10	348,899,080	247,066,462
Machinery and equipment		36,216	32,971
Deferred tax assets	12	363,778	377,783
Total non-current assets		**349,449,360**	**247,491,232**
Current assets			
Trade receivables and other receivables	13	3,455,775	734,766
Cash and cash equivalents	14	11,382,638	9,844,945
Total current assets		**14,838,412**	**10,579,711**
ASSETS TOTAL		**364,287,772**	**258,070,943**
EQUITY AND LIABILITIES			
Equity belonging to the parent company's shareholders	15		
Share capital		80,000	80,000
Invested non-restricted equity reserve		69,722,015	69,720,511
Fair value reserve		-950,940	-157,278
Translation difference		-1,747	
Retained earnings/losses		56,084,397	33,988,430
Profit/loss for the financial year		37,003,342	25,504,147
Equity belonging to the parent company's shareholders, total		**161,937,067**	**129,135,811**
Non-current liabilities			
Financial liabilities	17	158,809,420	101,156,352
D eferred tax liabilities	12	23,618,863	14,429,667
Total non-current liabilities		**182,428,283**	**115,586,019**
Current liabilities			
Financial liabilities	17	11,640,147	8,901,139
Trade payables and other liabilities	18	8,282,274	4,447,974
Total current receivables		**19,922,422**	**13,349,113**
Total liabilities		**202,350,705**	**128,935,131**
EQUITY AND LIABILITIES TOTAL		**364,287,772**	**258,070,943**

CONSOLIDATED CASH FLOW STATEMENT IFRS

CONSOLIDATED CASH FLOW STATEMENT IFRS			
EUR	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Cash flow from operations			
Profit for the financial year		37,003,342	25,504,147
Adjustments			
Non-cash transactions and other adjustments	21	-37,435,762	-24,907,234
Interest and other financial expenses		2,057,609	1,399,723
Interest income		-867	-585
Taxes		9,420,361	6,413,774
Changes in working capital			
Change in trade receivables and other receivables		-2,726,708	-296,473
Change in trade payables and other liabilities		4,086,318	-384,811
Interest paid		-2,062,160	-1,351,279
Interest received		867	585
Taxes paid		-1,611,666	-203,562
Net cash flow from operations (A)		**8,731,334**	**6,174,284**
Cash flow from investment activities			
Divestment of investment properties	10	10,911,237	0
Acquisition of investment properties		-2,126,892	-2,421,607
Investments in property, plant, and equipment	10	-77,193,637	-65,802,386
Investments in intangible assets		-136,269	-5,005
Net cash flow from investment activities (B)		**-68,545,562**	**-68,228,998**
Cash flow from financing activities			
Payments from the share issue	15	1,504	31,500,000
Loan withdrawals	17	73,413,983	44,955,476
Loan repayments	17	-8,756,467	-6,806,260
Dividends paid	15	-3,307,100	-2,078,886
Cash flow from financing activities (C)		**61,351,920**	**67,570,331**
Change in cash and cash equivalents (A + B + C)		**1,537,692**	**5,515,617**
Cash and cash equivalents at the beginning of the financial year		9,844,945	4,329,328
Cash and cash equivalents at the end of the financial year		11,382,638	9,844,945

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	Translation difference	Retained earnings	Equity, total
Equity on 1 Jan 2017	15	80,000	39,109,917	-247,754	0	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				**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**	**0**	**59,492,577**	**129,135,811**
Equity on 31 Dec 2017		**80,000**	**69,720,511**	**-157,278**	**0**	**59,492,577**	**129,135,811**
Amendments to IFRS 2						454,085	
Equity on 1 Jan 2018		80,000	69,720,511	-157,278	0	59,946,662	129,589,896
Comprehensive income							
Profit for the financial year						37,003,342	37,003,342
Other comprehensive income items *							0
Translation difference					-1,747		-1,747
Cash flow hedging				-793,662			-793,662
Total comprehensive income for the financial year				**-793,662**	**-1,747**	**37,003,342**	**36,207,933**
Transactions with shareholders							
Distribution of dividends						-3,307,100	-3,307,100
Share issue	15		1,504				1,504
Incentive system						-555,165	-555,165
Transactions with shareholders, total		**0**	**1,504**	**0**	**0**	**-3,862,265**	**-3,860,761**
Equity on 31 Dec 2018		**80,000**	**69,722,015**	**-950,940**	**-1,747**	**93,087,739**	**161,937,067**

* = 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 communities. The Group's parent company is Suomen Hoivatilat Oyj which shares have been listed on Nasdaq Helsinki since 1 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 20 February 2019. 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 2018 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 2018 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 2018 and 2017 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 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 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 IFRS 9 Financial Instruments: financial assets recognised at fair value measured through profit and loss, at fair value measured through other comprehensive income or at amoritsed cost. 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 IFRS 9. 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 IFRS 15 standard came into effect on 1 January 2018, replacing two earlier standards: IAS 18 Revenues and IAS 11 Construction Contracts. The Hoivatilat Group's sales revenues consist entirely of rental income based on leases, meaning that the IFRS 15 standard does not have significant effects on the Group's financial reporting.

IFRS 9 Financial Instruments replaced the IAS 39 standard on 1 January 2018. 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. IFRS 9 does not have significant impacts on consolidated financial statements.

The amendments to IFRS 2 Share-based Payment took effect on 1 January 2018. The amendments further clarify the accounting treatment of certain types of arrangements. They concern three areas: the measurement of cash-settled payments; share-based payments from which withholding tax has been deducted; and the conversion of share-based payments from cash-settled into equity-settled. Due to the implementation of the amendments, share reward arrangements that are paid in shares in accordance with the net amount after withholding tax are recognised as share-settled arrangements, regardless of the fact that the company pays the related taxes in cash on behalf of the recipients of the rewards. The implementation of the amendments to IFRS 2 increased the company's opening balance sheet total for 2018 by EUR 0.5 million.

New and amended standards and interpretations to be implemented during future periods

The Group has not yet applied the following new or amended standards and interpretations published by the IASB. The Group will adopt them as of the effective date of each standard and interpretation, or as of the beginning of the following financial year if the effective date is not the first day of a financial year.

IFRS 16 Leases will take effect on 1 January 2019. According to the company's estimate, the standard will affect the accounting treatment and presentation of land lease agreements in which the Group is the lessee. With the implementation of the standard, plot leases that have previously been treated as other leases in accordance with IAS 17 will be included in the Group's balance sheet. This will increase the value of the Group's investment properties and non-current liabilities by around EUR 34 million. The estimate is based on the lease plot reserve on 31 December 2018 and current terms and conditions.

Other new or amended standards or interpretations did not have a significant effect on the consolidated financial statements.

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 2018, the Group had three clients whose share in the Group's external revenue exceeded the 10% limit. The share of the largest client was 28% and that of the second largest client was 26% and that of the third largest was 11%. In 2017, the Group had three clients whose share in the Group's external revenue was more than 10%. The share of the largest client was 33% and that of the second largest client was 22% and that of the third largest client was 14%. The Group operated only in Finland in the financial year and the preceding financial years.

2. REVENUE AND OTHER OPERATING INCOME

EUR	2018	2017
Rental income from properties	17,182,305	12,361,850
Other sales	0	10,942
Grants received	152,400	0
Other operating income	130,335	0
Total	**17,465,040**	**12,372,792**

In 2018 the Group's revenue consisted in full of rental income and other sales generated in Finland and other operating revenues consisted mainly from TEKES-grants and such revenue from tenants which is not considered as rental income. The Group's revenue in 2017 consisted in full of rental income and other sales generated in Finland.

As a rule, fixed term leases of 12–20 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 in principle responsible for the operating and maintenance costs of the properties but during 2018 the company accomplished three life-cycle consept projects where it is responsible for the operating and maintenance costs.

Value and average maturity of the agreement portfolio		
EUR	2018	2017
Value of agreement portfolio at the end of the year	426,970,745	316,045,753
Average maturity of agreement portfolio at the end of the year (years)	14,9	14,4

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	**2018**	**2017**
In 2019	77,222	151,371
In 2024	1,127,218	1,291,560
In 2027	1,678,814	1,837,107
In 2028	7,476,031	8,080,785
In 2029	15,671,968	24,028,446
In 2030	43,966,650	48,444,906
In 2031	33,610,648	38,968,001
In 2032	79,754,160	81,995,701
In 2033	58,466,123	72,358,409
In 2034	85,750,345	12,597,084
In 2035	10,722,345	0
In 2038	30,754,821	26,292,384
In 2039	21,401,520	0
In 2040	36,512,880	0
Total	**426,970,745**	**316,045,753**

3. TRANSFERS OF INVESTMENT PROPERTIES AND CHANGES IN FAIR VALUE		
EUR	**2018**	**2017**
Changes in the fair value of investment properties	35,626,628	25,085,586
Divestment of investment properties	1,049,268	0
Total	**36,675,896**	**25,085,586**

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	**2018**	**2017**
Salaries	-2,011,022	-1,387,356
Pension expenses, defined contribution arrangements	-316,868	-226,723
Share-based payments	-542,520	-486,372
Other personnel expenses	-60,280	-54,956
Capitalised in property acquisition costs	480,500	270,680
Total	**-2,450,190**	**-1,884,728**
Group's average number of employees	17	13

5. DEPRECIATION		
EUR	**2018**	**2017**
Intangible assets	-28,562	-5,684
Machinery and equipment	-5,234	-4,386
Total	**-33,795**	**-10,070**

6. PROPERTY MAINTENANCE COSTS AND ADMINISTRATIVE COSTS		
EUR	2018	2017
Property maintenance costs		
Direct maintenance costs of investment properties, which have accumulated rental income during the financial year	-1,275,332	-961,909
Direct maintenance costs of investment properties, which have not accumulated rental income during the financial year	-32,164	-49,770
Total	**-1,307,496**	**-1,011,679**

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 mutual real estate companies.

EUR	2018	2017
Administrative costs		
Other operating expenses, which are not allocated to investment properties	-1,869,009	-1,234,843
Total	**-1,869,009**	**-1,234,843**
Auditor's fees		
Audit	-37,898	-26,955
Certificates and statements	-2,050	0
Other services	-6,565	-35,024
Total	**-46,513**	**-61,979**

7. FINANCIAL INCOME AND EXPENSES		
EUR	2018	2017
Financial income		
Interest income	867	585
Total	**867**	**585**
Financial expenses		
Interest expenses	-2,220,703	-1,582,627
Interest expenses capitalised in the properties' acquisition costs	163,094	182,904
Total	**-2,057,609**	**-1,399,723**

8. INCOME TAXES

EUR	2018	2017
Tax based on the taxable income of the financial year	-18,745	-266,174
Deferred taxes	-9,401,616	-6,147,600
Total	**-9,420,361**	**-6,413,774**

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

EUR	2018	2017
Profit before taxes	46,423,703	31,917,921
Taxes at the parent company's tax rate on the balance sheet date	-9,284,741	-6,383,584
Use of tax losses previously not recognised	2,772	5,901
Deferred tax assets not recognised from tax losses	-20,934	-1,117
Non-deductible expenses	-2,437	-1,207
Taxes from previous periods	-15	-3,869
Impact of the incentive system	-40,765	-33,656
Other items	-74,242	3,758
Taxes in the income statement	**-9,420,361**	**-6,413,774**

9. EARNINGS PER SHARE

EUR	2018	2017
Profit for the financial year belonging to the parent company's shareholders	37,003,342	25,504,147
Earnings per share, undiluted	1.46	1.05
Earnings per share, adjusted with the dilution effect	1.45	1.04
Weighted average number of shares during the financial year, undiluted	25,414,511	24,228,585
Weighted average number of shares during the financial year, diluted	25,491,042	24,408,357

Bridge calculation for earnings per share

EUR	2018	2017
Weighted average number of shares during the financial year, undiluted	25,414,511	24,228,585
Impact of the share reward system	76,531	179,772
Weighted average number of shares during the financial year, diluted	25,491,042	24,408,357

10. INVESTMENT PROPERTIES		
EUR	2018	2017
Fair value of investment properties, 1 Jan	**247,066,462**	**154,751,290**
Investments in properties under construction and in the starting phase	79,783,106	64,509,168
Other investment property investments	289,099	266,279
Additions from purchased propeties	1,379,446	2,454,138
Divestment of investment properties	-15,245,660	0
Profits and losses from changes in fair value	35,626,628	25,085,586
Fair value of investment properties, 31 Dec	**348,899,080**	**247,066,462**

EUR	2018	2017
Completed investment properties	329,000,000	231,400,000
Investment properties under construction	18,360,223	15,007,431
Investment properties in the starting phase (valued at acquisition cost)	1,538,857	659,030
Total	**348,899,080**	**247,066,462**

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 105.1 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. During the financial years 2018 and 2017 the valuation was 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). Realia has defined a market value of 135 (114) properties. Of the appraised properties, 120 (90) were completed and generated cash flow on the balance sheet date and 15 (14) were under construction. The 13 (10) 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 2018, the net operating income of the portfolio (NOI1) calculated using the individual properties appraised was 6.15% (6.46%). All investment properties are Level 3 inputs in the fair value hierarchy.

Sensitivity analysis of the fair value calculation of investment properties

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 2018 has been presented in the table below.

Sensitivity analysis of the fair value calculation of investment properties			
	Change in the net operating income requirement		
	31.12.2018	**+1.0%**	**-1.0%**
Portfolio net operating income	6.15%	7.15%	5.15%
Fair value of investment property portfolio	348,899,080	300,102,006	416,646,475
Impact of the change in the yield requirement on the fair value of investment properties		-48,797,074	67,747,394

11. GROUP COMPANIES

The Group includes the parent company Suomen Hoivatilat Oyj and its wholly owned subsidiaries. At the end of the 2018 financial year, the Group included the parent company and 131 limited liability housing companies. During the financial year of 2018 the Group sold all shares of the following seven limited liability housing companies: Kiinteistö Oy Ulvilan Peltotie, Kiinteistö Oy Kouvolan Toukomiehentie B, Kiinteistö Oy Nurmijärven Vehnäpellontie, Kiinteistö Oy Paimion Kämmekkä, Kiinteistö Oy Turun Kukolantie, Kiinteistö Oy Uudenkaupungin Salmenkatu ja Kiinteistö Oy Oulun Ukkoherrantie.

Company	Group's holding 31 December 2018	Group's holding 31 December 2017
Suomen Hoivatilat Oyj		
Hoivatilat AB	100%	0%
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 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 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 2018	Group's holding 31 December 2017
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 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 Oulun Kehätie	100%	100%
Kiinteistö Oy Oulun Paulareitti	100%	100%
Kiinteistö Oy Oulun Rakkakiventie	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 Teollisuuskatu	100%	100%
Kiinteistö Oy Turun Vakiniituntie	100%	100%
Kiinteistö Oy Turun Vähäheikkiläntie	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%
Kiinteistö Oy Euran Käräjämäentie	100%	100%
Kiinteistö Oy Hämeenlinnan Jukolanraitti	100%	100%
Kiinteistö Oy Iisalmen Eteläinen puistoraitti	100%	100%
Kiinteistö Oy Iisalmen Kangaslammintie	100%	100%
Kiinteistö Oy Jyväskylän Mannisenmäentie	100%	100%

Company	Group's holding 31 December 2018	Group's holding 31 December 2017
Kiinteistö Oy Kaarinan Nurminiitynkatu	100%	100%
Kiinteistö Oy Kajaanin Valonkatu	100%	100%
Kiinteistö Oy Kalajoen Hannilantie	100%	100%
Kiinteistö Oy Keuruun Tehtaantie	100%	100%
Kiinteistö Oy Kuopion Amerikanraitti 10	100%	100%
Kiinteistö Oy Lahden Jahtikatu	100%	100%
Kiinteistö Oy Lahden Piisamikatu	100%	100%
Kiinteistö Oy Lappeenrannan Orioninkatu	100%	100%
Kiinteistö Oy Mikkelin Väänäsenpolku	100%	100%
Kiinteistö Oy Mikkelin Ylännetie 10	100%	100%
Kiinteistö Oy Mikkelin Ylännetie 8	100%	100%
Kiinteistö Oy Nurmijärven Ratakuja	100%	100%
Kiinteistö Oy Paimion Mäkiläntie	100%	100%
Kiinteistö Oy Pihtiputaan Nurmelanpolku	100%	100%
Kiinteistö Oy Pirkkalan Pereensaarentie	100%	100%
Kiinteistö Oy Porin Koekatu	100%	100%
Kiinteistö Oy Raahen Palokunnanhovi	100%	100%
Kiinteistö Oy Rovaniemen Matkavaarantie	100%	100%
Kiinteistö Oy Sastamalan Tyrväänkyläntie	100%	100%
Kiinteistö Oy Siilinjärven Risulantie	100%	100%
Kiinteistö Oy Sipoon Aarrepuistonkuja	100%	100%
Kiinteistö Oy Sipoon Aarretie	100%	100%
Kiinteistö Oy Tornion Torpin Rinnakkaiskatu	100%	100%
Kiinteistö Oy Turun Lukkosepänkatu	100%	100%
Kiinteistö Oy Uudenkaupungin Merilinnuntie	100%	100%
Kiinteistö Oy Varkauden Savontie	100%	100%
Kiinteistö Oy Vihdin Pengerkuja	100%	100%
Kiinteistö Oy Iisalmen Petter Kumpulaisentie	100%	0%
Kiinteistö Oy Iisalmen Vemmelkuja	100%	0%
Kiinteistö Oy Janakkalan Kekanahontie	100%	0%
Kiinteistö Oy Joutsenon päiväkoti	100%	0%
Kiinteistö Oy Jyväskylän Ailakinkatu	100%	0%
Kiinteistö Oy Jyväskylän Palstatie	100%	0%
Kiinteistö Oy Jyväskylän Vävypojanpolku	100%	0%
Kiinteistö Oy Kajaanin Hoikankatu	100%	0%
Kiinteistö Oy Kokkolan Ankkurikuja	100%	0%
Kiinteistö Oy Kouvolan Ruskeasuonkatu	100%	0%
Kiinteistö Oy Kuopion Portti A2	100%	0%
Kiinteistö Oy Laihian Jarrumiehentie	100%	0%
Kiinteistö Oy Laukaan Saratie	100%	0%
Kiinteistö Oy Mynämäen Opintie	100%	0%
Kiinteistö Oy Oulun Sarvisuontie	100%	0%

Company	Group's holding 31 December 2018	Group's holding 31 December 2017
Kiinteistö Oy Oulun Soittajanlenkki	100%	0%
Kiinteistö Oy Pieksämäen Ruustinnantie	100%	0%
Kiinteistö Oy Porvoon Haarapääskyntie	100%	0%
Kiinteistö Oy Raahen Vihastenkarinkatu	100%	0%
Kiinteistö Oy Siilinjärven Honkarannantie	100%	0%
Kiinteistö Oy Siilinjärven Nilsiäntie	100%	0%
Kiinteistö Oy Sotkamon Kirkkotie	100%	0%
Kiinteistö Oy Turun Paltankatu	100%	0%
Kiinteistö Oy Vaasan Vanhan Vaasankatu	100%	0%
Kiinteistö Oy Vantaan Koivukylän Puistotie	100%	0%
Kiinteistö Oy Vihdin Hiidenrannantie	100%	0%
Kiinteistö Oy Ylivieskan Mikontie 1	100%	0%
Kiinteistö Oy Ylivieskan Ratakatu 12	100%	0%
Kiinteistö Oy Äänekosken Likolahdenkatu	100%	0%
Kiinteistö Oy Ulvilan Peltotie	0%	100%
Kiinteistö Oy Kouvolan Toukomiehentie B	0%	100%
Kiinteistö Oy Nurmijärven Vehnäpellontie	0%	100%
Kiinteistö Oy Paimion Kämmekkä	0%	100%
Kiinteistö Oy Turun Kukolantie	0%	100%
Kiinteistö Oy Uudenkaupungin Salmenkatu	0%	100%
Kiinteistö Oy Oulun Ukkoherrantie	0%	100%

The address of the Parent company and all Group companies is Lentokatu 2, 90460 Oulunsalo.
The address of Hoivatilat Ab is Svärdvägen 21, 18233 Danderyd, Sweden.

12. DEFERRED TAXES

EUR	2018	2017
Deferred tax assets		
From transaction costs recognised in equity in the share issue	117,698	247,646
From other comprehensive income items	237,735	39,319
From the share-based incentive system	8,345	90,817
Total	**363,778**	**377,783**
Deferred tax liabilities		
From measuring investment properties at fair value	23,588,073	14,203,407
Other items	30,790	226,260
Total	**23,618,863**	**14,429,667**

13. TRADE RECEIVABLES AND OTHER RECEIVABLES

EUR	2018	2017
Trade receivables	453,054	140,359
Accrued income	863,065	482,920
Other receivables	2,139,656	111,487
Total	**3,455,775**	**734,766**

Trade receivables on 31 December 2018 included 117,266.25 euros worth of overdue trade receivables.
No credit losses were recognised on trade receivables during financial years 2018 and 2017.

14. CASH AND CASH EQUIVALENTS		
EUR	**2018**	**2017**
Cash and bank accounts	11,382,638	9,844,945
Total	**11,382,638**	**9,844,945**

15. EQUITY

Share capital
Suomen Hoivatilat Oyj has one series of shares. On 31 December 2018, the company's share capital was EUR 80,000 and the number of shares was 25,439,229. 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
The 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
The Annual General Meeting on 27 March 2018 authorised the Board of Directors to make a decision on the issuance of up to 2,500,000 new shares or shares held by the company, in one or more paid share issues. These share issues may be directed share issues or share issues in accordance with the pre-emptive subscription rights of the shareholders. The authorisation can also be used for company incentive schemes. Based on the authorisation, up to 250,000 shares can be issued for incentive schemes. The share issue authorisation of the Board of Directors is valid until the end of the next Annual General Meeting, but no later than 30 June 2019.

Dividends
In 2018, the dividend distributed was EUR 0.13 per share, totalling EUR 3,307,099.77. The number of shares entitling to the dividend paid in 2018 was 25,288,859. 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.

After the end date of the reporting period, Suomen Hoivatilat Oyj's Board of Directors has proposed that a dividend of EUR 0.17 per share be distributed, totalling EUR 4,324,668.93.

Changes in the number of shares and the corresponding changes in equity				
	Number of shares	**Share capital**	**Invested non-restricted equity reserve**	**Total**
1 Jan 2017	**20,788,859**	**80,000**	**39,109,917**	**39,189,917**
Share issue				31,500,000
Transaction costs of the share issue with the adjusted impact of deferred taxes				-889,406
31 Dec 2017	**25,288,859**	**80,000**	**69,720,511**	**69,800,511**
1 Jan 2018	**25,288,859**	**80,000**	**69,720,511**	**69,800,511**
Share issue	150,370		1,504	1,504
31 Dec 2018	**25,439,229**	**80,000**	**69,722,015**	**69,802,015**

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 2015 recognition of the share reward programme

	2016–2017	2016	2015
Share issuance date	26 Apr 2016	10 Feb 2015	10 Feb 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, %	83.5%	100.0%	50.7%
Actual success rate, %	-	100.0%	50.7%
Debt related to the share reward programme on the balance sheet date	0	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.

Share reward system 2018

In accordance with the authorisation issued by the Annual General Meeting on 27 March 2018, the Board of Directors of Suomen Hoivatilat Oyj decided, on 12 June 2018, to continue the long-term incentive scheme for the company's personnel. The scheme was established as part of the incentive and loyalty system for the personnel of the company and its subsidiaries. The purpose is to unify the goals of the owners and the employees to raise the value of the company over the long term, as well as keeping the employees engaged with the company and offering them a competitive reward system based on the earning and accumulation of company shares. The system has two (2) earning periods, with earning period I running from 1 June 2018 to 30 November 2019 and earning period II from 1 June 2018 to 31 May 2021. The earning criterion to be applied to the share reward programme is total shareholder return (TSR) during the earning period. Under this programme, a maximum of 250,000 shares will be paid out to employees, as well as a cash portion to cover the taxes incurred by the recipients of the rewards. The Board of Directors decides separately on the maximum reward for each participant for each earning period. The maximum reward is 66,500 shares for earning period I and 133,500 for earning period II. The Board of Directors may decide to amend the maximum reward amounts within the framework of the maximum authorisation (250,000 shares) for the 2018 share reward programme.

The shares from earning period I may not be transferred, pledged or otherwise used before the vesting period ends on 31 May 2021. The shares from earning period II may not be transferred, pledged or otherwise used before the vesting period ends on 30 November 2022. If the employment or service contract 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 2018 recognition of the share reward programme

	Performance period I	Performance period II
Share issuance date	12 Jun 2018	12 Jun 2018
Maximum number of shares to be given as a reward	66,500	133,500
Share value, EUR	7.53	7.53
Performance period	1.6.2018–30.11.2019	1.6.2018–31.5.2021
Vesting period ends	31.5.2021	30.11.2022
Estimated success rate, %	9.5%	17.5%
The expected cost effect of the programme	103,747	380,989
The highest possible total cost of the programme	1,091,304	2,182,609
People covered by the programme on 31 December 2018	19	19

17. FINANCIAL LIABILITIES

EUR	2018	2017
Non-current financial liabilities measured at amortised cost		
Loans from financial institutions	158,809,420	101,156,352
Total	**158,809,420**	**101,156,352**

Current financial liabilities measured at amortised cost	**2018**	**2017**
Bank overdrafts	920,639	0
Loans from financial institutions	10,719,508	8,901,139
Total	**11,640,147**	**8,901,139**

The Group's bank loans have a variable interest rate. The Group's average interest rate on 31 December 2018 was 1.47% (1.54% in 2017). The amounts of the Group's variable-rate loans and their repricing periods in accordance with the agreement are as follows:

	2018	2017
Less than 3 months	0	0
3–6 months	88,368,677	29,237,969
6–12 months	82,080,891	80,816,521
Total	**170,449,568**	**110,054,490**

18. TRADE PAYABLES AND OTHER LIABILITIES

EUR	2018	2017
Current liabilities measured at amortised cost		
Advances received	10,800	116,118
Trade payables	3,062,111	2,171,281
Accrued expenses	5,054,205	1,814,171
Other liabilities	155,159	149,838
Total	**8,282,274**	**4,251,408**

EUR	2018	2017
Current liabilities recognised at fair value through profit and loss		
Derivative contracts, in hedge accounting	1,188,674	196,567
Total	**1,188,674**	**196,567**

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 2020. In addition, the Company has signed instalment-free interest rate swaps with a nominal value of EUR 35 million, which became effective in December 2018 and will mature in 2023. The Company has also signed instalment-free interest rate swaps with nominal value of EUR 10 million, which will become effective in March 2019 and mature in 2024. 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 2018 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 1.2 million (in 2017, by EUR 0.9 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 2018, 35.8% 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 1.93 years. The remaining loan period of interest-bearing liabilities weighted with capital was 8.8 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.

The company's financial assets on 31 December 2018 stood at EUR 41.5 million, consisting of cash assets (EUR 11.4 million), undrawn credit facilities (EUR 6.1 million), undrawn investment loans based on loan agreements (EUR 14.0 million) and the undrawn portion (EUR 10.0 million) of the loan based on the financing agreement with the European Investment Bank (EIB). In addition, the company has an option for EUR 20 million in additional funding from the EIB on the terms and conditions of an earlier agreement. .

Loan covenants

The company's loan arrangements include regular collateral and covenants. The company uses collateral in the loan arrangements, and its loan arrangements include regular prohibitions concerning pledges. On the balance sheet date, the company had EUR 170.4 million in interest-bearing loans, of which EUR 56.3 million is subject to covenants related to the ratio between the fair value of the asset and the loan (loan-to-value ratio, LTV) and EUR 20 million (included in the share subject to the LTV covenants mentioned above) is subject to covenants related to the ratio between EBITDA and net financial expenses (interest coverage ratio, ICR), in addition to LTV covenants. Non-compliance with the 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 main part of the business operations of Suomen Hoivatilat are located in Finland, and thus the Group is not exposed to notable exchange rate risk. The effect of the Swedish business operations started in 2018 to Group's financial statements is minor.

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.

Maturity of repayments of financial liabilities and of financial expenses

	Cash flow based on agreement					
31 Dec 2018, EUR	Less than 1 year	1–2 year	2–5 year	More than 5 year	Total	Balance sheet value
Bank loans	13,730,809	14,019,986	46,543,815	107,925,434	182,220,044	170,443,891
Interest rate derivatives	468,537	869,787	829,075	0	2,167,398	1,188,674
Trade payables and other liabilities	3,228,070				3,228,070	3,228,070
Total	**17,427,415**	**14,889,773**	**47,372,890**	**107,925,434**	**187,615,512**	**174,860,635**

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 2018 Interest rate swaps	**Weighted maturity**	**Nominal value**	**Fair value**
Interest rate swaps	4.13	61,000,000	-1,188,674

31.12.2017 Interest rate swaps	**Weighted maturity**	**Nomina value**	**Fair value**
Interest rate swaps	4.15	41,000,000	-196,567

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 2018, equity ratio was 44.5% (50.1% in 2017).

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.

EUR, 2018	Book value	Fair value	Fair value hierarchy
Financial assets			
Loans and other receivables			
Current			
Trade receivables	453,054	453,054	
Other receivables	3,002,721	3,002,721	
Cash and cash equivalents	11,382,638	11,382,638	
Financial assets, total	**14,838,412**	**14,838,412**	
Financial liabilities			
Measured at amortised cost			
Non-current			
Bank loans	158,809,420	158,809,420	2
Current			
Bank loans	11,640,147	11,640,147	2
Trade payables and other liabilities	3,228,070	3,228,070	
Measured at fair value			
Current			
Interest rate swaps, in hedge accounting	1,188,674	1,188,674	2
Financial liabilities, total	**174,866,311**	**174,866,311**	

EUR, 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**	

21. ADJUSTMENTS OF CASH FLOWS FROM OPERATIONS

EUR	2018	2017
Non-cash transactions and other adjustments		
Depreciation	33,795	10,070
Share-based payments	-793,662	168,282
Changes in the fair value of investment properties	-36,675,896	-25,085,586
Total	**-37,435,762**	**-24,907,234**

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	2018	2017
Leasing liabilities		
Within one year	55,616	44,494
In one to five years	45,779	25,413
In more than five years	0	0
Leasing liabilities, total	**101,395**	**69,907**
Land lease liabilities		
Within one year	826,655	677,738
In one to five years	3,306,619	2,710,951
In more than five years	29,631,841	24,955,817
Land lease liabilities, total	**33,765,114**	**28,344,505**
Leasing and lease liabilities		
Within one year	882,271	722,232
In one to five years	3,352,397	2,736,363
In more than five years	29,631,841	24,955,817
Leasing and land lease liabilities, total	**33,866,509**	**28,414,412**

23. COLLATERAL PROVIDED, CONTINGENT LIABILITIES AND OTHER LIABILITIES

EUR	2018	2017
Property mortgages		
Loans from financial institutions	170,449,567	110,057,490
Mortgages provided	228,364,213	170,837,163
Mortgages total	**228,364,213**	**170,837,163**

Pledged property shares	**2018**	**2017**
Pledged investment properties	244,584,100	90,104,821
Pledges total	**244,584,100**	**90,104,821**

Other liabilities

Audit obligation related to value added tax on property investments

Suomen Hoivatilat Oy's subsidiaries, Kiinteistö Oy Siilinjärven Sinisiipi, Kiinteistö Oy Mäntyharjun Lääkärinkuja, Kiinteistö Oy Uudenkaupungin Merimetsopolku A, Kiinteistö Oy Ylivieskan Ratakatu 12, Kiinteistö Oy Ylivieskan Mikontie 1 and Kiinteistö Oy Siilinjärven Risulantie, must review the VAT deductions they have made on completed property investments if the taxable use of the properties decreases during the review period. The final years of review will be 2021, 2026, 2026, 2027, 2027 and 2027, respectively. The return liability stood at EUR 2,636,750 on the balance sheet date.

24. RELATED PARTY TRANSACTIONS

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 Board member and shareholder of Rakennusliike Lapti Oy and the Managing Director of Rakennusliike Lapti Oy's parent company Lapti Group Oy.

Pertti Huuskonen, chairman of the Board of Directors of Suomen Hoivatilat Oyj is a shareholder of Rakennusliike Lehto Oy's parent company Lehto Group Oyj and was also the chairman of the Board of Directors of Lehto Group Oyj until the 11 of April 2018. Rakennusliike Lehto Oy is not considered as a related party company after 11 April 2018.

Business transactions with external related party companies	**2018**	**2017**
Construction contracts invoiced by Rakennusliike Lapti Oy	6,243,318	26,029,035
Construction contracts invoiced by Rakennusliike Lehto Oy	0	1,003,962
Group's trade payables to Rakennusliike Lapti Oy 31 Dec	948,842	1,495,797
Group's trade payables to Rakennusliike Lehto Oy 31 Dec	0	0

Management remuneration and employee benefits

The management key employees are the Board of Directors, CEO and the management team.

CEO's remuneration and other short-term employee benefits	2018	2017
Salaries and fringe benefits	240,000	197,897
Performance-related pay	92,524	84,000
Share rewards	1,095,148	0
Total	**1,427,672**	**281,897**

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.

Employee benefits of the management team	2018	2017
Salaries and fringe benefits	577,229	523,049
Share rewards	1,095,164	0
Total	**1,672,393**	**523,049**

The Annual General Meeting held on 27 March 2018 resolved to pay monthly compensation to the members of the Board of Directors as follows: EUR 3,750 to the chairman of the Board and EUR 1,667 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	2018	2017
Pertti Huuskonen, chairman	58,350	47,500
Satu Ahlman (Board member since 23 February 2017)	28,753	22,400
Harri Aho (Board member since 27 March 2018)	23,603	0
Kari Nenonen (Board member since 27 March 2018)	24,303	0
Timo Pekkarinen	26,753	21,300
Reijo Tauriainen	28,953	27,500
Mammu Kaario (Board member until 27 March 2018)	7,950	26,000
Kristiina Hautakangas (Board member until 23 February 2017)	0	2,100
Total	**198,665**	**146,800**

Shareholding of Board members, CEO and management team	2018	2017
CEO	361,916	292,515
Board	1,063,815	1,475,951
Management team	119,168	63,117
Total	**1,544,899**	**1,831,583**

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 2018**	**1 Jan–31 Dec 2017**
TOTAL REVENUE	1	**17,714,538.68**	**12,716,822.32**
Other operating income	2	801,927.14	344,532.78
Transfers of investment properties and changes in fair value	3	53,681,328.96	29,472,600.81
Personnel expenses			
Salaries, wages and remuneration	4	-1,971,299.81	-2,442,344.96
Indirect personnel expenses			
Pension expenses	4	-303,893.11	-226,722.76
Other personnel expenses	4	-50,125.31	-54,955.99
Total		**-2,325,318,23**	**-2,724,023,71**
Depreciation and impairment losses			
Depreciation according to plan	6	-683,538.25	-511,053.59
Total		**-683,538,25**	**-511,053,59**
Other operating expenses	5	-23,600,328.09	-10,474,663.58
OPERATING PROFIT (LOSS)		**45,588,610.21**	**28,824,215.03**
Financial income and expenses	7		
Other interest and financial income			
From Group companies		969,096.01	2,135,850.18
From others		662.90	312.00
Interest and other financial expenses			
From others		-287,527.28	-147,247.09
Total		**682,231.63**	**1,988,915.09**
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		**46,270,841.84**	**30,813,130.12**
Appropriations			
Increase (-)/decrease (+) in depreciation difference		-2,389.47	-3,299.03
Total		**-2,389.47**	**-3,299.03**
Income taxes			
Taxes for the financial year	8	-20,925.13	-272,459.29
Deferred taxes	8	-9,235,202.21	-5,894,520.16
Total		**-9,256,127.34**	**-6,166,979.45**
PROFIT (LOSS) FOR THE FINANCIAL YEAR		**37,012,325.03**	**24,642,851.64**

PARENT COMPANY'S BALANCE SHEET FAS

PARENT COMPANY'S BALANCE SHEET FAS			
EUR	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights	9	4,899.96	9,150.00
Other expenses with long-term effects	9	733,874.46	1,243,097.84
Total		**738,774.42**	**1,252,247.84**
Property, plant and equipment			
Machinery and equipment	9	36,215.93	32,971.10
Non-current assets total		**36,215.93**	**32,971.10**
Investments			
Receivables from Group companies	11	0.00	239,413.34
Investment properties	10	170,653,635.32	73,020,274.47
Total		**170,653,635.32**	**73,259,687.81**
		171,428,625.67	**74,544,906.75**
CURRENT ASSETS			
Receivables			
Non-current			
Receivables from Group companies	11	31,847,068.30	59,224,730.64
Total		**31,847,068.30**	**59,224,730.64**
Current			
Trade receivables		694,854.20	301,558.78
Receivables from Group companies	11	10,182,716.99	10,832,564.52
Other receivables	12	1,740,635.00	99,946.10
Accrued income	12	645,957.34	239,682.27
Total		**13,264,163.53**	**11,473,751.67**
Cash in hand and at banks		**5,770,807.93**	**3,015,392.26**
Current assets, total		**50,882,039.76**	**73,713,874.57**
ASSETS TOTAL		**222,310,665.43**	**148,258,781.32**

PARENT COMPANY'S BALANCE SHEET FAS			
EUR	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
LIABILITIES			
EQUITY			
Share capital	13	80,000.00	80,000.00
Invested non-restricted equity reserve	13	71,281,397.89	71,279,894.19
Retained earnings/losses	13	55,099,476.56	33,763,724.69
Profit/loss for the financial year	13	37,012,325.03	24,642,851.64
Equity total		**163,473,199.48**	**129,766,470.52**
ACCUMULATED APPROPRIATIONS			
Depreciation difference		11,235.12	8,845.65
Total		**11,235.12**	**8,845.65**
DEBT CAPITAL			
Non-current			
Loans from financial institutions	18	20,205,574.00	244,778.00
Total		**20,205,574.00**	**244,778.00**
Current			
Loans from financial institutions		959,843.36	3,267.00
Advances received		0.00	105,317.60
Trade payables		219,571.83	98,835.45
Liabilities to Group companies	15	11,546,714.20	1,928,985.06
Deferred tax liabilities	16	23,417,284.31	14,182,082.10
Other liabilities		108,364.87	127,664.70
Accrued expenses	17	2,368,878.26	1,792,535.24
Total		**38,620,656.83**	**18,238,687.15**
Debt capital total		**58,826,230.83**	**18,483,465.15**
LIABILITIES TOTAL		**222,310,665.43**	**148,258,781.32**

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		46,268,452.37	30,809,831.09
Adjustments			
Depreciation according to plan		683,538.25	511,053.59
Financial income and expenses		-682,231.63	-1,988,915.09
Other adjustments	19	-53,678,939.49	-29,469,301.78
Cash flow before change in working capital		-7,409,180.50	-137,332.19
Change in working capital			
Current non-interest bearing operating receivables increase (-) / decrease (+)		-821,315.85	-10,403,203.98
Increase (+) / decrease (-) in current non-interest-bearing liabilities		11,598,282.99	8,686,672.60
Cash flow from operations before financial items and taxes		**3,367,786.64**	**-1,853,863.57**
Paid interest and payments from other financial expenses of operations		-287,527.28	-147,247.09
Interest received from operations		662.90	312.00
Direct taxes paid		-1,429,017.01	-291,946.66
Cash flow from operations (A)		**1,651,905.25**	**-2,292,745.32**
Cash flow from investment activities			
Investments in tangible and intangible assets		-173,309.66	-1,132,396.04
Divestment of investment properties		10,914,934.86	
Loans granted		-54,627,553.41	-1,613,600.38
Capital gain from other investments	10	27,377,662.34	-20,182,000.00
Cash flow from investment activities (B)		**-16,508,265.87**	**-22,927,996.42**
Cash flow from financing activities			
Equity increase through share issue	13	1,503.70	31,500,000.00
Withdrawals of short-term loans		956,576.36	
Withdrawals of long-term loans	18	19,960,796.00	248,045.00
Repayments of long-term loans		0.00	-1,663,285.48
Dividends paid	13	-3,307,099.77	-2,078,885.90
Cash flow from financing activities (C)		**17,611,776.29**	**28,005,873.62**
Change in cash and cash equivalents (A + B + C), increase (+) / decrease (-)		**2,755,415.67**	**2,785,131.88**
Cash and cash equivalents at the beginning of the financial year		3,015,392.26	230,260.38
Cash and cash equivalents at the end of the financial year		5,770,807.93	3,015,392.26

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

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 investment 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 2018, the parent company had eight (8) interest rate swaps, with the total equity of EUR 61,000,000. The fair value of the interest rate swaps was EUR -1,188,674 on 31 December 2018. 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	2018	2017
Rental income from properties	17,182,304.56	12,361,849.87
Sales to Group companies	532,234.12	344,030.12
Other sales	0.00	10,942.33
Total	**17,714,538.68**	**12,716,822.32**

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	2018	2017
Grants received	152,400.00	0.00
Other operating income	649,527.14	344,532.78
Total	**801,927.14**	**344,532.78**

3. CHANGES IN FAIR VALUE OF THE INVESTMENT PROPERTIES		
EUR	2018	2017
Changes in fair value of the investment properties	51,797,694.06	29,472,600.81
Divestments of investment properties	1,883,634.90	0.00
Total	**53,681,328.96**	**29,472,600.81**

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	2018	2017
Average number of personnel	17	13
Salaries and other remuneration of the CEO	-332,524.00	-281,896.89
Salaries and other remuneration of the management board	-577,229.00	-523,049.00
Salaries and other remuneration of the Board of Directors	-198,665.00	-146,800.00
Amortisation of the cash contribuiton of the incentive programme	-88,734.30	-1,097,685.00
Other salaries and remuneration	-774,147.51	-392,914.07
Pension insurance payments	-303,893.11	-226,722.76
Other personnel expenses	-50,125.31	-54,955.99
Total	**-2,325,318.23**	**-2,724,023.71**

5. OTHER OPERATING EXPENSES		
EUR	2018	2017
Maintenance charges and financing contributions paid to Group companies	-21,592,324.16	-9,123,290.29
Other operating expenses	-2,008,003.93	-1,351,373.29
Total	**-23,600,328.09**	**-10,474,663.58**
Auditor's fees	2018	2017
Audit	-37,898	-26,955
Certificates and statements	-2,050	0
Other services	-6,565	-35,024
Total	**-46,513**	**-61,979**

6. DEPRECIATION AND IMPAIRMENT LOSSES		
EUR	2018	2017
Depreciation according to plan	-683,538.25	-511,053.59
Total	**-683,538.25**	**-511,053.59**

7. FINANCIAL INCOME AND EXPENSES		
EUR	**2018**	**2017**
Dividend and interest income from Group companies	969,096.01	2,135,850.18
Other interest income	662.90	312.00
Other interest expenses	-287,527.28	-147,247.09
Total	**682,231.63**	**1,988,915.09**

8. INCOME TAXES		
EUR	**2018**	**2017**
Income tax for ordinary operations	-20,925.13	-272,459.29
Deferred taxes related to changes in fair values of the investment properties	-9,235,202.21	-5,894,520.16
Total	**-9,256,127.34**	**-6,166,979.45**

9. INTANGIBLE ASSETS AND MACHINERY AND EQUIPMENT				
EUR	**Intangible rights**	**Other expenses with long-term effects**	**Machinery and equipment**	**Total**
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 31 December 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**
Acquisition cost 1 Jan 2018	21,250.00	1,956,183.39	44,808.92	2,022,242.31
Increases	0.00	164,831.19	8,478.47	173,309.66
Decreases	0.00	0.00	0.00	0.00
Acquisition cost 31 Dec 2018	21,250.00	2,121,014.58	53,287.39	2,195,551.97
Accumulated depreciation, amortisation and impairments 1 Jan 2018	-12,100.00	-713,085.55	-11,837.82	-737,023.37
Depreciation and amortisation during the financial year	-4,250.04	-674,054.57	-5,233.64	-683,538.25
Accumulated depreciation and amortisation 31 Dec 2018	-16,350.04	-1,387,140.12	-17,071.46	-1,420,561.62
Book value 31 Dec 2018	**4,899.96**	**733,874.46**	**36,215.93**	**774,990.35**

10. HOLDINGS IN OTHER COMPANIES

At the end of the 2018 financial year Suomen Hoivatilat Oyj wholly owned 131 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	2018	2017
Fair value of the investment properties 1 Jan	**73,020,274.47**	**41,934,073.28**
Investments in stocks of limited liability housing companies	60,472,031.89	1,613,600.38
Decreases from investment properties sold	-14,636,365.10	0.00
Profits and losses from changes in the fair values	51,797,694.06	29,472,600.81
Fair value of the investment properties 31 Dec	**170,653,635.32**	**73,020,274.47**

Company	Parent holding 2018	Parent holding 2017
Hoivatilat AB	100%	0%
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 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 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%

Company	Parent holding 2018	Parent holding 2017
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%
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 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 Oulun Kehätie	100%	100%
Kiinteistö Oy Oulun Paulareitti	100%	100%
Kiinteistö Oy Oulun Rakkakiventie	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 Teollisuuskatu	100%	100%
Kiinteistö Oy Turun Vakiniituntie	100%	100%
Kiinteistö Oy Turun Vähäheikkiläntie	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%

Company	Parent holding 2018	Parent holding 2017
Kiinteistö Oy Vihdin Vanhan-Sepän tie	100%	100%
Kiinteistö Oy Ylöjärven Mustarastaantie	100%	100%
Kiinteistö Oy Ylöjärven Työväentalontie	100%	100%
Kiinteistö Oy Euran Käräjämäentie	100%	100%
Kiinteistö Oy Hämeenlinnan Jukolanraitti	100%	100%
Kiinteistö Oy Iisalmen Eteläinen puistoraitti	100%	100%
Kiinteistö Oy Iisalmen Kangaslammintie	100%	100%
Kiinteistö Oy Jyväskylän Mannisenmäentie	100%	100%
Kiinteistö Oy Kaarinan Nurminiitynkatu	100%	100%
Kiinteistö Oy Kajaanin Valonkatu	100%	100%
Kiinteistö Oy Kalajoen Hannilantie	100%	100%
Kiinteistö Oy Keuruun Tehtaantie	100%	100%
Kiinteistö Oy Kuopion Amerikanraitti 10	100%	100%
Kiinteistö Oy Lahden Jahtikatu	100%	100%
Kiinteistö Oy Lahden Piisamikatu	100%	100%
Kiinteistö Oy Lappeenrannan Orioninkatu	100%	100%
Kiinteistö Oy Mikkelin Väänäsenpolku	100%	100%
Kiinteistö Oy Mikkelin Ylännetie 10	100%	100%
Kiinteistö Oy Mikkelin Ylännetie 8	100%	100%
Kiinteistö Oy Nurmijärven Ratakuja	100%	100%
Kiinteistö Oy Paimion Mäkiläntie	100%	100%
Kiinteistö Oy Pihtiputaan Nurmelanpolku	100%	100%
Kiinteistö Oy Pirkkalan Pereensaarentie	100%	100%
Kiinteistö Oy Porin Koekatu	100%	100%
Kiinteistö Oy Raahen Palokunnanhovi	100%	100%
Kiinteistö Oy Rovaniemen Matkavaarantie	100%	100%
Kiinteistö Oy Sastamalan Tyrväänkyläntie	100%	100%
Kiinteistö Oy Siilinjärven Risulantie	100%	100%
Kiinteistö Oy Sipoon Aarrepuistonkuja	100%	100%
Kiinteistö Oy Sipoon Aarretie	100%	100%
Kiinteistö Oy Tornion Torpin Rinnakkaiskatu	100%	100%
Kiinteistö Oy Turun Lukkosepänkatu	100%	100%
Kiinteistö Oy Uudenkaupungin Merilinnuntie	100%	100%
Kiinteistö Oy Varkauden Savontie	100%	100%
Kiinteistö Oy Vihdin Pengerkuja	100%	100%
Kiinteistö Oy Iisalmen Petter Kumpulaisentie	100%	0%
Kiinteistö Oy Iisalmen Vemmelkuja	100%	0%
Kiinteistö Oy Janakkalan Kekanahontie	100%	0%
Kiinteistö Oy Joutsenon päiväkoti	100%	0%
Kiinteistö Oy Jyväskylän Ailakinkatu	100%	0%

Company	Parent holding 2018	Parent holding 2017
Kiinteistö Oy Jyväskylän Palstatie	100%	0%
Kiinteistö Oy Jyväskylän Vävypojanpolku	100%	0%
Kiinteistö Oy Kajaanin Hoikankatu	100%	0%
Kiinteistö Oy Kokkolan Ankkurikuja	100%	0%
Kiinteistö Oy Kouvolan Ruskeasuonkatu	100%	0%
Kiinteistö Oy Kuopion Portti A2	100%	0%
Kiinteistö Oy Laihian Jarrumiehentie	100%	0%
Kiinteistö Oy Laukaan Saratie	100%	0%
Kiinteistö Oy Mynämäen Opintie	100%	0%
Kiinteistö Oy Oulun Sarvisuontie	100%	0%
Kiinteistö Oy Oulun Soittajanlenkki	100%	0%
Kiinteistö Oy Pieksämäen Ruustinnantie	100%	0%
Kiinteistö Oy Porvoon Haarapääskyntie	100%	0%
Kiinteistö Oy Raahen Vihastenkarinkatu	100%	0%
Kiinteistö Oy Siilinjärven Honkarannantie	100%	0%
Kiinteistö Oy Siilinjärven Nilsiäntie	100%	0%
Kiinteistö Oy Sotkamon Kirkkotie	100%	0%
Kiinteistö Oy Turun Paltankatu	100%	0%
Kiinteistö Oy Vaasan Vanhan Vaasankatu	100%	0%
Kiinteistö Oy Vantaan Koivukylän Puistotie	100%	0%
Kiinteistö Oy Vihdin Hiidenrannantie	100%	0%
Kiinteistö Oy Ylivieskan Mikontie 1	100%	0%
Kiinteistö Oy Ylivieskan Ratakatu 12	100%	0%
Kiinteistö Oy Äänekosken Likolahdenkatu	100%	0%
Kiinteistö Oy Oulun Ukkoherrantie	0%	100%
Kiinteistö Oy Ulvilan Peltotie	0%	100%
Kiinteistö Oy Kouvolan Toukomiehentie B	0%	100%
Kiinteistö Oy Nurmijärven Vehnäpellontie	0%	100%
Kiinteistö Oy Paimion Kämmekkä	0%	100%
Kiinteistö Oy Turun Kukolantie	0%	100%
Kiinteistö Oy Uudenkaupungin Salmenkatu	0%	100%

The address of the Parent company and all Group companies is Lentokatu 2, 90460 Oulunsalo. The address of Hoivatilat Ab is Svärdvägen 21, 18233 Danderyd, Sweden.

11. RECEIVABLES FROM GROUP COMPANIES		
EUR	2018	2017
Non-current Group loan receivables	31,847,068.30	59,224,730.64
Prepayments and accrued income	4,123,474.14	4,296,137.49
Other Group receivables	6,059,242.85	6,536,427.03
Total	**42,029,785.29**	**70,057,295.16**

12. ESSENTIAL ITEMS RELATED TO PREPAYMENTS AND ACCRUED INCOME AND OTHER PREPAID EXPENSES		
EUR	2018	2017
Deferred tax assets	1,720,201.56	83,346.10
Other accrued income	666,390.78	256,282.27
Total	**2,386,592.34**	**339,628.37**

13. EQUITY		
EUR	2018	2017
Share capital 1 Jan	80,000.00	80,000.00
Change in the financial year	0.00	0.00
Share capital 31 Dec	80,000.00	80,000.00
Invested non-restricted equity reserve 1 Jan	71,279,894.19	39,779,894.19
Amount entered in share capital	0.00	0.00
Share issue	1,503.70	31,500,000.00
Invested non-restricted equity reserve 31 Dec	71,281,397.89	71,279,894.19
Profit from previous periods 1 Jan	58,406,576.33	35,842,610.59
Distribution of dividends	-3,307,099.77	-2,078,885.90
Profit from previous periods 31 Dec	55,099,476.56	33,763,724.69
Profit for the financial year	37,012,325.03	24,642,851.64
Total shareholders' equity 31 Dec	**163,473,199.48**	**129,766,470.52**

14. DISTRIBUTABLE FUNDS		
EUR	**2018**	**2017**
Invested non-restricted equity reserve	71,281,397.89	71,279,894.19
Profit from previous financial years	55,099,476.56	33,763,724.69
Profit/loss for the financial year	37,012,325.03	24,642,851.64
Total	**163,393,199.48**	**129,686,470.52**

15. LIABILITIES TO GROUP COMPANIES		
EUR	**2018**	**2017**
Short-term Group liabilities	11,546,714.20	1,928,985.06
Total	**11,546,714.20**	**1,928,985.06**

16. DEFERRED TAX LIABILITIES		
EUR	**2018**	**2017**
Deferred tax liabilities from measuring the investment properties at fair value	23,417,284.31	14,182,082.10
Total	**23,417,284.31**	**14,182,082.10**

17. ESSENTIAL ITEMS IN ACCRUALS AND DEFERRED INCOME		
EUR	**2018**	**2017**
Personnel expense amortisations	292,038.46	154,967.66
Income taxes	28,517.91	28,517.91
Amortisation of the cash contribuiton of the incentive programme	0.00	1,097,685.00
Required investments in completed investment porperties	955,174.16	467,206.49
Other amortised costs related to investments	931,415.82	0.00
Other	161,731.91	44,158.18
Total	**2,368,878.26**	**1,792,535.24**

18. COLLATERAL AND CONTINGENT LIABILITIES

EUR	Loan capital	Pledges given	Collateral total
Loans from financial institutions*	21,165,417.36	140,283,556.91	140,283,556.91
Total	**21,165,417.36**	**140,283,556.91**	**161,448,974.27**

* The parent company had a total limits of EUR 7,000,000 available, of which EUR 1,165,417.36 were in use on the balance sheet date. In addition the parent company had a EUR 10,000,000 loan from European investment bank available for immediate withdrawal.

Collateral given by the parent company on behalf of subsidiaries

EUR	2018	2017
Financial guarantees given by the parent company on behalf of subsidiaries	149,523,251.27	109,888,645.04
Share pledges given by the parent company on behalf of subsidiaries	104,494,429.06	32,023,402.31
Other pledges given by the parent company on behalf of subsidiaries / pledging of Group receivables	13,941,000.00	18,269,060.22
Total	**267,958,680.33**	**160,181,107.57**

Off-balance sheet leasing liabilities

EUR	2018	2017
Payable in one year	55,615.98	44,494.44
In one to five years	45,778.79	25,412.54
In more than five years	0.00	0.00
Leasing liabilities, total	**101,394.78**	**69,906.97**

19. OTHER ADJUSTMENTS TO CASH FLOW FROM OPERATIONS

EUR	2018	2017
Changes in fair value of the investment properties	53,681,328.96	29,472,600.81
Increase (-)/decrease (+) in depreciation difference	-2,389.47	-3,299.03
Other adjustments, total	**53,678,939.49**	**29,469,301.78**

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

Oulu, 20 February 2019

Pertti Huuskonen
chairman of the Board of Directors

Harri Aho
member of the Board of Directors

Satu Ahlman
member of the Board of Directors

Kari Nenonen
member of the Board of Directors

Timo Pekkarinen
member of the Board of Directors

Reijo Tauriainen
member of the Board of Directors

Jussi Karjula
CEO

AUDITOR'S NOTE

Our auditor's report was issued today.

Oulu, 20 February 2019

KPMG Oy Ab
Authorised Public Accountants
Antti Kääriäinen, 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 2018. 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

- The investment properties measured at fair value (EUR 348.9 million) represent over 96% of the consolidated total assets in the 2018 financial statements.
- The fair value of investment properties owned through property companies in the parent company's balance sheet was EUR 170.7 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..

Audit approach to the matters

- 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 a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 25 March 2013 and our appointment represents a total period of uninterrupted engagement of 6 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, 20 February 2019
KPMG OY AB

Antti Kääriäinen
Authorised Public Accountant, KHT

HOIVATILAT

SUOMEN HOIVATILAT OYJ

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HELSINKI Bertel Jungin aukio 3, 02600 Espoo, Finland

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