



ARE

ANNUAL REVIEW

2018



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RESPONSIBLE PIONEER IN BUILDING SERVICES SYSTEMS

LAST YEAR, we got to be involved in many fine projects, allowing us to develop the energy efficiency and comfort of properties. Several significant building services contracting agreements were concluded during the year. The most significant of them were the Tripla office towers in Helsinki, the Soukka and Kaitaa stations of the West Metro in Espoo, Koy Keilaniemen torni in Espoo, and the Kymenlaakso G Hospital in Kotka. We were also chosen to install the biggest solar power systems in Nordic history for S-Group.

This year, we will also be serving our customers in Sweden. The acquisition of Kungälv's Rörläggeri towards the end of the year was the first step towards our objective of providing our customers with all building services throughout the property life cycle in Sweden as well. We will also pursue more growth, a better customer experience and an increase in our digitisation rate in Finland.

At the end of the review, we have compiled a section on responsibility, aimed at providing our stakeholders with practical information about work with responsibility.

I would like to thank our customers, partners, shareholders and personnel for our success to date. The best customer and employee experience, competitiveness and growth are the foundations on which we are building the Are of tomorrow.



Heikki Pesu, CEO



GROWTH IN CONSTRUCTION CONTINUED

GROWTH IN CONSTRUCTION CONTINUED in Finland during 2018. The positive economic cycle continued to support new construction, and renovation continued to grow as well. The growth was particularly strong in the Helsinki metropolitan area and other growth centres. The growth in construction activity was reflected in building services contracting which, however, is post-cyclic in relation to construction. The maintenance services market remained stable.

► Also listen to the discussion between the chair of LVI-TU, Heikki Pesu, and CEO Jari Syrjälä on industry cycles, profit-making ability and outlook.

Expansion into Sweden

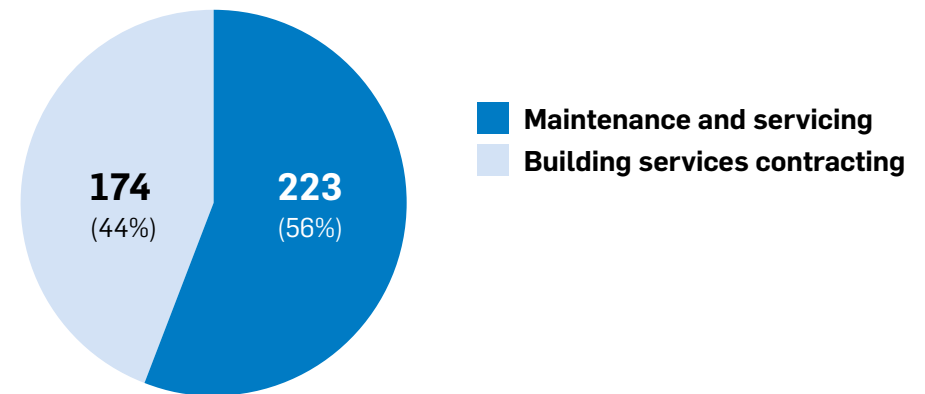
In addition to Finland, we serve our customers in Russia, St. Petersburg. After the end of the financial year, we expanded into Sweden by acquiring Kungälv's Rörläggeri, the leading pipe contracting and maintenance company in the Gothenburg region. Besides strong expertise in pipework contracting, the operations of Kungälv's Rörläggeri include Inter El AB, an electrical contracting and maintenance company in the Gothenburg area with approximately 20 employees. The company employs 240 building services professionals, and its net sales for 2018 amounted to EUR 46 million. The acquisition was the first step towards our objective of providing our customers with all building services throughout the property life cycle in Sweden as well. ■



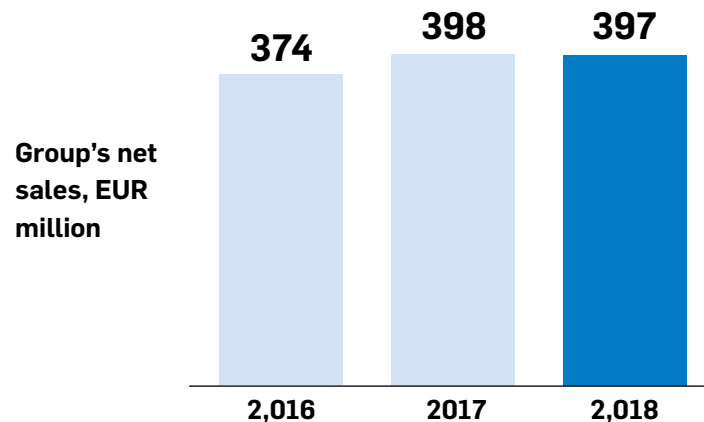
ORDER BACKLOG GROWTH

OUR ORDER BACKLOG INCREASED BY 10% year-on-year. Several significant building services contracting agreements were signed during the year. The net sales for 2018 amounted to EUR 397 million, of which property services accounted for 56% and building services contracting for 44%. The group's profitability weakened on the previous financial year, and EBITDA amounted to EUR 14 million. ■

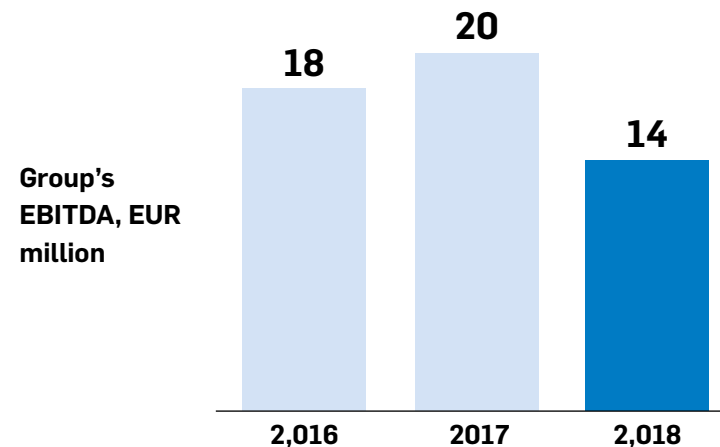
Breakdown of Are Group's net sales for 2018 (EUR 397 million)



Group's net sales



Group's EBITDA



CUSTOMER NEEDS GUIDE OUR STRATEGIC DEVELOPMENT

The building services industry experienced strong growth in Finland during 2018, which laid a good foundation for advancing Are's strategy. >



ARE HAS chosen the path of profitable growth in its strategy. We have reached the market leadership in Finland, and therefore expansion into nearby markets is a natural next strategic step for us. We already have lots of customers in Finland that operate throughout the Nordic countries.

In December 2018, we announced our first acquisition in Sweden after long preparations. We acquired the pipework contracting and maintenance company Kungälv's Rörläggeri, the leading company in the Gothenburg region that has expanded its operations into seven locations in Sweden. The company employs some 240 industry professionals. Besides strong expertise in pipework contracting, the operations of Kungälv's Rörläggeri include Inter El AB, an electrical contracting and maintenance company in the Gothenburg area with approximately 20 employees. Our aim is to provide our customers with all building services throughout the property life cycle in Sweden as well in the future. This will mean expanding our Swedish operations during the next couple of years.

Towards the best customer experience

Customers are at the core of our strategy. We have carried out significant development work to make our customers' voice heard better in everything we do. We systematically measure our customer satisfaction. In addition, we have, among other things, trained and developed our customer orientation with a new online learning environment and the Omakoutsi peer learning network.

We want to offer our customers the best customer experience in the industry. Are has three service sectors: new projects, maintenance services and modernisation. We have worked hard to offer

our customers a similar customer experience in all of our service areas. During last year, we enhanced our internal cooperation and sharing of information even further to provide the customer with an even more uniform Are experience.

End user satisfaction is also strongly influenced by the cost efficiency of the building services partner. Last year, we developed our procurement activities and the efficiency of our premises and warehouses, among other things.

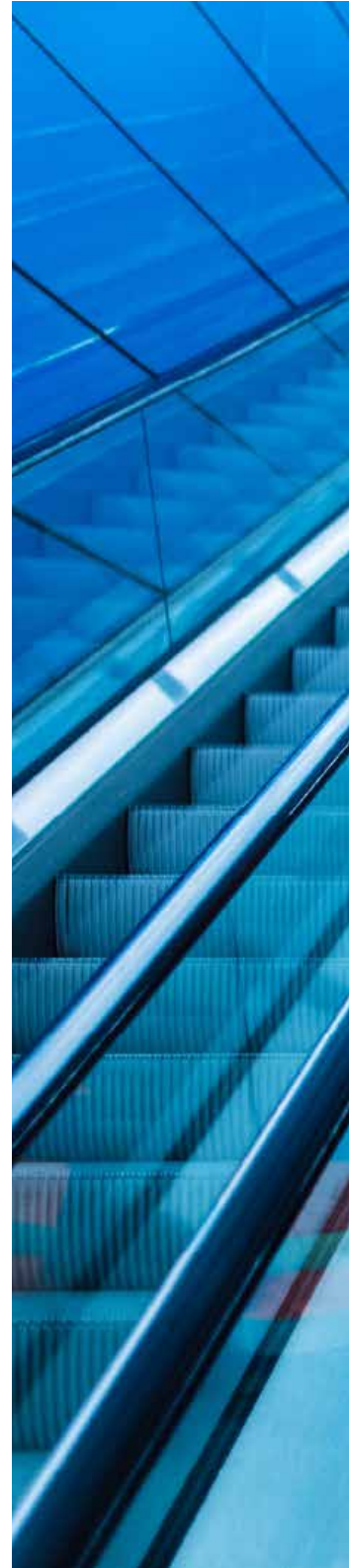
Building services are becoming increasingly digital

Globally, the construction industry continues to be one of the least digitised industries. However, digitisation offers immense opportunities to the real estate sector.

Are wants to be a forerunner in digitisation as well. In our strategy, we refer to this as building digitisation. A good example of our development work is the Ohjuri maintenance control system, which we began to develop in 2018. Ohjuri makes the management of work orders more efficient, speeds up responding to customer needs, and above all, makes our operations more transparent to the customer.

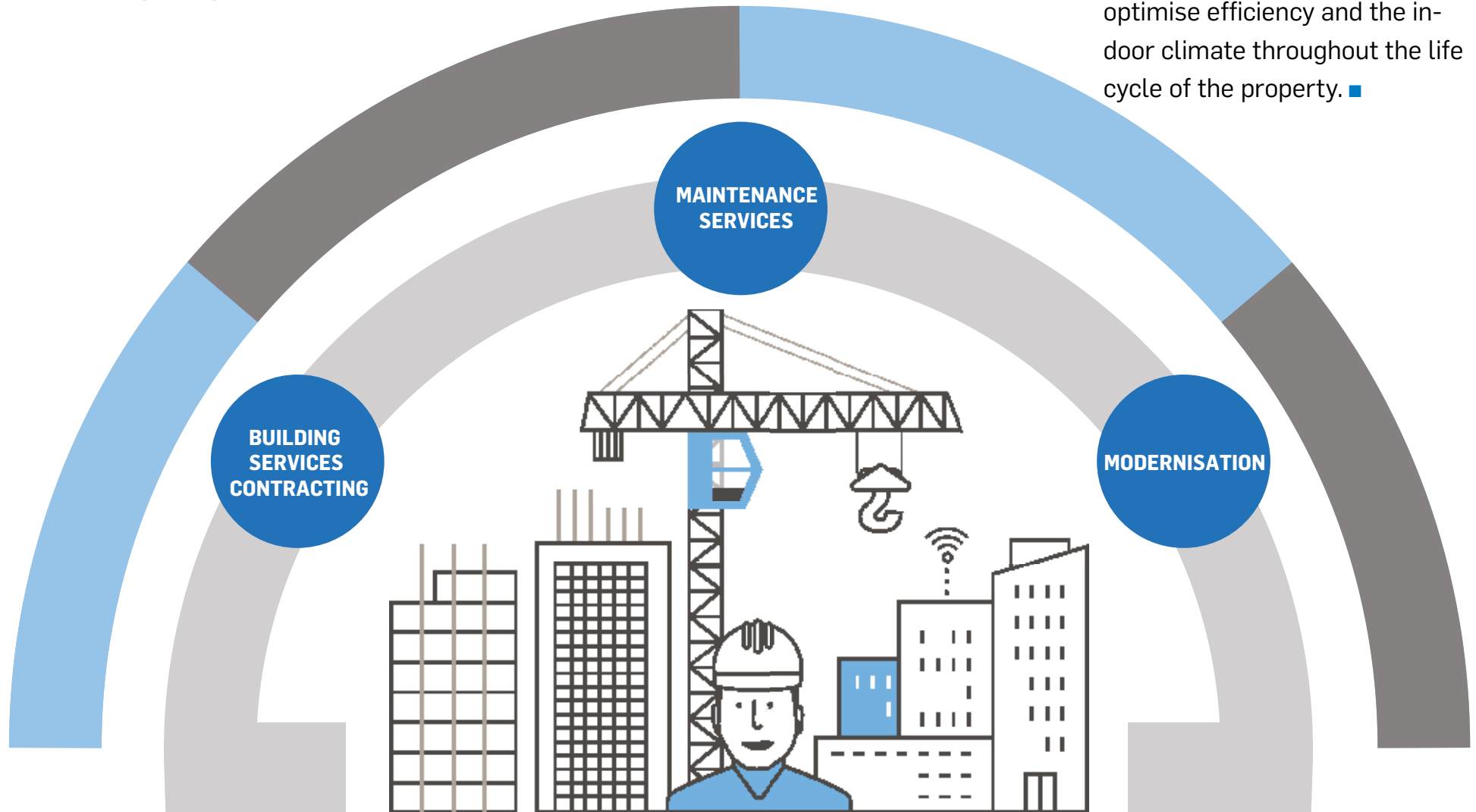
Adopting digital operating methods is largely about culture management. The same applies to the safety mindset. Amidst all the development of strategy, it should be remembered that the most important thing about our operation is that Are employees return safely home after work. ■

Are wants to be a forerunner in digitisation as well.



WE OPTIMISE SERVICES **THROUGHOUT THE PROPERTY** LIFE CYCLE

Our life-cycle services aim to optimise efficiency and the indoor climate throughout the life cycle of the property. ■



SMART BUILDING SERVICES THROUGHOUT THE PROPERTY LIFE CYCLE

A functional property is the sum of many parts. Smart building services solutions play a key role in energy-efficient and functional buildings that are good for people to be, work and live in.

WE WANT TO BE A pioneer in building services, and therefore we continuously develop our operations. We work closely with our customers to find the best solutions, regardless of whether the property is an office, hotel, hospital or industrial plant. We always aim at energy-efficient premises and comfortable indoor conditions for the users of the premises, with cost-efficient implementation.

Diverse technology

In addition to heating, ventilation and electrical systems, we also master other building services systems. This allows us to adopt a comprehensive approach to the building services of the property, both in installation and maintenance. ■

► [Learn about our services on are.fi](https://are.fi)



WE SPEAK THE LANGUAGE OF YOUR BUSINESS

Technology enhances buildings. We are familiar with various fields of technology and the special requirements of different property types and segments. Our extensive expertise, spanning over decades, provides efficiency and savings to our customers.

ARE IS THE market leader of its industry in Finland. Our customers can get building services covering the entire life cycle of the property from us. We work closely with our customers to find the best solutions, regardless of whether the property is an office, hotel, hospital or industrial plant.

With regard to maintenance solutions, 2018 was a year of growth. Our strong foothold in maintaining office and business premises strengthened as a result of several local and nationwide agreements. Examples of successes in 2018 include the expansion of cooperation with Senate Properties and Antilooppi, as well as the agreement on the technical maintenance of Hesburger restaurants across Finland.

The past year significantly increased our operations involving hospital properties. We were chosen as the building services partner in hospital projects in Kuopio and Vaasa and with the Hospital District Lapland, realised under the PPP model. A milepost was reached in the building services contracting of office and business premises, when we secured the biggest single contract in our history with Tripla in the Pasila district of Helsinki. Office properties

realised with the Sensus building services system are part of the massive Tripla project, in which we have been involved in different phases from the very beginning of the project.

In addition to conventional systems, we also realised green and comfortable properties using renewable energy solutions. We became the biggest solar power installation company as a result of S-Group's project. In the project, we were responsible for the installation of solar power systems on the roofs of 40 S-Group shops.

Results through cooperation

We pursue close partnerships with which we can provide our customers added value while developing our operations. We regularly monitor the satisfaction of our customers.

Are's customer satisfaction remained at a good level in 2018. The Net Promoter Score (NPS) was 26. In particular, our customers appreciated our reliability, customer orientation and business insights. ■

**Are is the market
leader of its industry.**

Net Promoter Score

26

TRIPLA WORKERY

THE THREE OFFICE BUILDING site Workery in the Pasila district of Helsinki was the biggest single contract in Are's history in 2018 (EUR 18.5 million) as well as the most extensive project realised using the Sensus building services system.

A hub of new work will rise in Tripla in Pasila. Workery, with a floor area of some 50,000 m², will be completed in spring 2020, and it will be the workplace of more than 3,500 people. Are will realise the building systems of the office complex comprised of the Stoge, Feskari and Keskikortteli buildings.

In addition, Are will be responsible for the electrical contract for the Tripla parking facility and new Pasila public transport station as well as the HVAC contract of the Mall of Tripla, electrical contract for business premises and HVAC and electrical contract for the event area. ■

Building services systems need to be realised cost-efficiently and reasonably so that the premises can be adapted flexibly without big and expensive alterations. Are has been able to provide reliable solutions for this.

PEKKA LUUKKONEN, PRODUCTION DIRECTOR, YIT



Workery will be the workplace
of more than

3,500
people.

TURKU TECHNOLOGY PROPERTIES

TURKU TECHNOLOGY PROPERTIES is a real estate investment company operating in the Turku Science Park. Are has been cooperating closely with Turku Technology Properties for several years, with comprehensive responsibility for the building services solutions and maintenance operations of the properties.

Turku Technology Properties owns 11 properties, with a total floor area of 140,000 m². The company provides thousands of users with the settings for studying and working. In addition to modern premises, the company's aim is to develop activity in the entire area.

In addition to building services solutions and maintenance, Are is also responsible for modernisation of engineering and new construction projects. The most recent site under construction is the Kupittaa campus to be completed in 2020; Are will realise its building services using the Sensus building services system. ■

► [Watch video](#)

■ ■ As a large player, Are is able to meet the objectives set. When work is performed genuinely together and conventional boundaries are abandoned, it becomes possible to develop things in a completely new way.

OLLI ROSENBERG, PROPERTY AND SERVICE DIRECTOR, TURKU TECHNOLOGY PROPERTIES

TTP provides premises to more than

280

companies and organisations.



CUSTOMER

KUOPIO UNIVERSITY HOSPITAL

THE HOSPITAL DISTRICT OF NORTH SAVO is strongly reforming the Kuopio University Hospital, which will become one of the most modern hospital centres in Europe. Among other projects, Are has implemented electrical, ventilation, pipework and heating pipe contracts at the Kuopio University Hospital.

The most recent contracts performed for the Kuopio University Hospital were completed during 2018. Are has been involved in the electrical, ventilation and pipework contracts of the first phase of the hospital renovation and the electrical, pipework and ventilation contracts of the A&E clinic renovation. In these target price contracts, Are was responsible for the control of design and procurement. The total value of the multi-year projects exceeds EUR 33 million.

In addition to contracting, Are's maintenance and servicing services have had a continuous framework agreement with Kuopio University Hospital since 2003. Are's long-term maintenance experience has provided a valuable addition to the contracting projects through thorough knowledge of the building. ■

Are's team have a good understanding of the boundary conditions of the hospital environment: the operations of the hospital always take top priority. Are has succeeded well, we are satisfied.

MIKKO HOLLMÉN, REAL ESTATE MANAGER, HOSPITAL DISTRICT OF NORTHERN SAVO



The total value of the work exceeds

EUR **33** million.



CORPORATE RESPONSIBILITY

RESPONSIBILITY IS ABOUT DOING THINGS RIGHT THE FIRST TIME

We develop our operations in accordance with the principle of continuous improvement. In addition to the well-being of the personnel and high quality, life cycle management of properties and the well-being of the environment are important to us. Our responsible operating method includes doing what we have promised right the first time within the agreed schedule. This is the only sustainable way, also with regard to the environment.

CERTIFICATES PROVE that we consider quality, environment and health and safety in everything we do. Our certified ISO 9001 Quality Management System supports the continuous development of the quality of operations and contributes to ensuring customer satisfaction. ISO 14001-certified environmental management system is the world's best-known environmental management system model, which is proof of the good management and continuous development of environmental matters. The OHSAS 18001 Occupational Health and Safety System, on the other hand, supports the development of a safe operating culture.



PERSONNEL

DEVELOPING MANAGERIAL WORK **INCREASED JOB SATISFACTION**

Are is a strongly value-led company, which can also be seen in HR management. In accordance with our values, working together and looking after ourselves, our employees and our customers are emphasised in everything we do.

IN A FAMILY-OWNED 106-YEAR-OLD business, the development of HR management is about the long term. This can be seen in a high engagement index and low turnover of the personnel. We strongly believe that the well-being of the personnel has a positive impact on customer satisfaction.

Occupational safety and management of working capacity have been made top priorities in HR management at Are. In 2018, employees were rewarded for making safety observations. The number of safety observations increased ten-fold, which was reflected positively in decreasing accidents at work and sick leaves.

Investments in working capacity management also contributed to the decrease in absence due to sickness. Are has prepared a toolbox for working capacity management for supervisors and trained them in using it. Supervisors now know how to better utilise various work experiments, job rotation and lightened work. Thanks to these measures, we have succeeded in preventing premature retirement in addition to reducing sick leaves. ➤



Number of personnel at year-end

2,873

(2017: 2,853)

Engagement index

70

(percentage of those giving a grade of 4 or 5 out of all respondents)



Satisfaction with supervisory work increased

In 2018, Are invested strongly in the development of supervisory work and communications in particular. We provided supervisors with supervisor training and other orientations and trainings relating to the development of supervisory work, both face-to-face and in the form of online training courses. We paid particular attention to the role of supervisors in enhancing the meaningfulness of work. Moreover, we provided tools for cooperation between teams and units, as well as special support for units facing challenges.

The results of the development of supervisory work could be seen positively in the annual personnel survey: satisfaction with supervisory work increased significantly. We also received a record-high number of suggested candidates for the vote in which employees can vote for the best supervisor at Are. The best thing is that the units' personnel submitted lots of very positive feedback on their own supervisors.

More than 270 candidates were suggested for the Are's supervisor of the year competition.

We strengthened our cooperation with educational institutions

From the point of view of HR management, it is also important to us to ensure that Are is the most attractive employer in its industry. In 2018, we developed our cooperation with educational institutions and recruitment, as well as took part in the Responsible Summer Job campaign.

We want to strengthen our expertise in working in diverse working communities. In 2018, we took part in the Confederation of Finnish Industries' Work Does not Discriminate campaign and clarified to our personnel how to act equally both at our own workplace and at our customers' sites. ■

RETURNING HOME HEALTHY

WE WANT TO ENSURE that every one of our employees and customers can return home healthy after work. Prediction is the most efficient way of avoiding accidents. With safety observations, employees can make their working environment healthier. Construction sites involve a working environment that changes every day – what was safe yesterday can be dangerous today. When employees learn how to spot hazards, they also learn how to avoid them and better prepare for them, which can be seen in a decrease in the accident rate. ARE uses an electronic tool for employees to report their occupational safety observations. Other safety measures include online courses, post-accident discussions, actively intervening in safety deviations and safety walks. ■

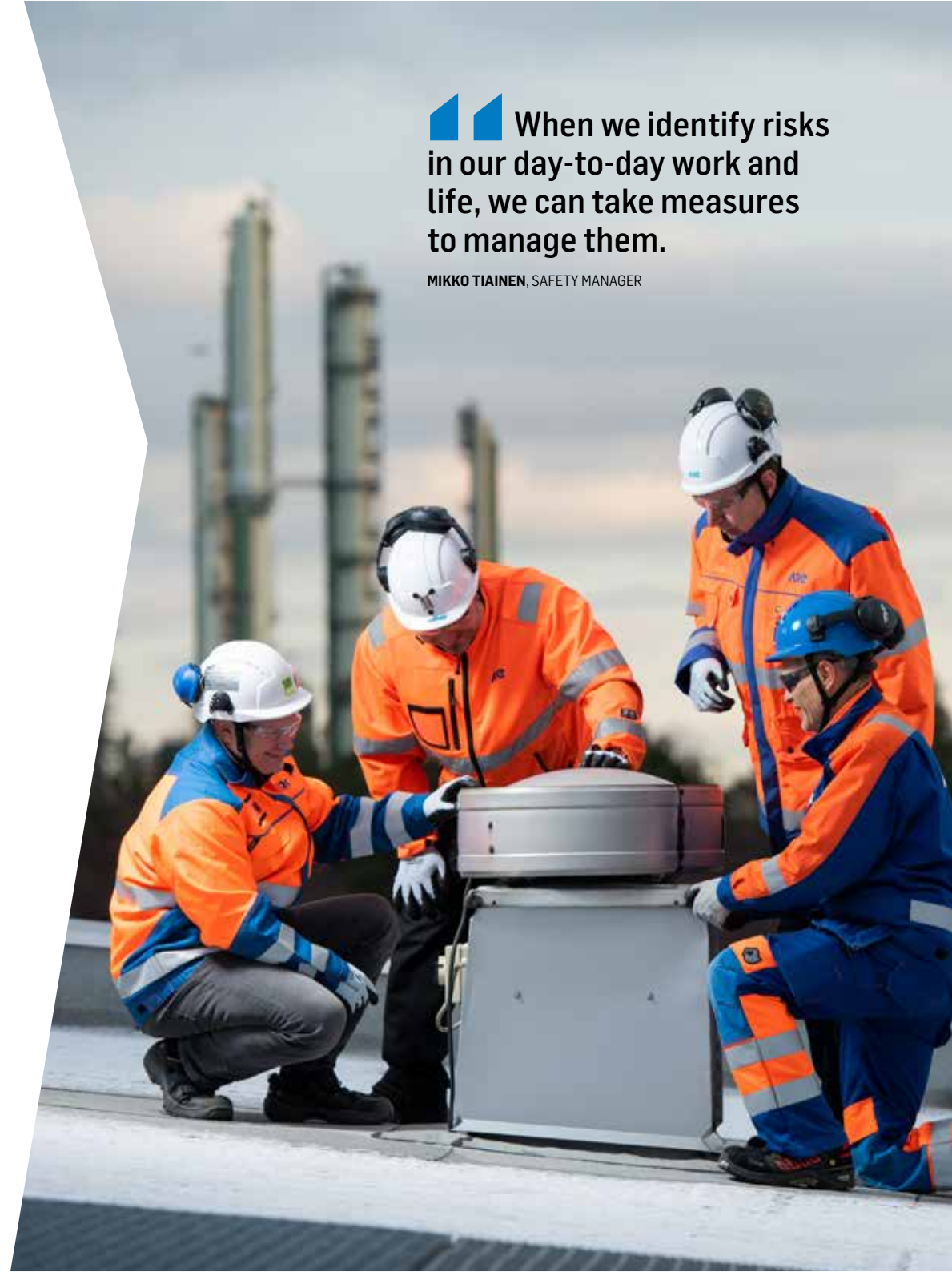
► **How can occupational safety be incorporated into daily activities and the corporate culture? Listen to ARE safety manager Mikko Tiainen and Regional Director Ari Kinnunen talk about the topic.**

Key figures	2017	2018
Safety observations	400	5,710
Accident frequency rate*	20	18
Sickness absence rate, %	4.5	4.2

* Accident frequency rate refers to the ratio between accidents at work resulting in incapacity for work lasting for more than one day and hours worked. The ratio is calculated per one million hours worked.

When we identify risks in our day-to-day work and life, we can take measures to manage them.

MIKKO TIAINEN, SAFETY MANAGER



WE TAKE CARE OF THE ENVIRONMENT

WE IMPLEMENT THE principles of sustainable development in everything we do.

In order to reach our environmental goals

- We comply with the environmental legislation on our operations.
- We assess the environmental risks relating to our operations, aim to eliminate them and develop their management.
- We use recyclable materials and products. In our product development, production processes and operating methods, we aim to mitigate the negative environmental impact of our operations.
- We require our subcontractors and partners to act in a way that contributes to the realisation of our environmental policy.
- We guide our personnel towards responsibility in environmental matters through consistent training and guidance.
- We continuously improve our management of environmental affairs.
- We actively communicate about environmental matters and engage in open discussion in environmental questions relating to our operations.

We are aware of the environmental impacts of our operations

We have specified environmental goals for our operations. They are concrete measures to improve the state of the environment. Our goals for 2018 were to minimise the energy consumption of customer properties, reduce fuel consumption and minimise waste costs. ➤

ENVIRONMENT

Fuel consumption is decreasing

At Are, the efficiency and environmental friendliness of the use of cars is developed by optimising the number, size and use of vehicles. We have reached cost-savings through the measures. Measures to reduce the amount of driving include fast deliveries by wholesalers.

We measure the efficiency and environmental friendliness of the use of vehicles by calculating the ratio of fuel consumption to net sales. In 2018, Are maintenance vehicles used 813,010 litres of fuel, while the net sales of maintenance and servicing was EUR 223 million. The ratio is therefore 3.7 l/EUR 1,000 of net sales.

The figure was on a par with 2017, and we fell slightly short of the target of 3.5 l/EUR 1,000. In 2015, however, the figure was 5.2 l/EUR 1,000, so the development has been favourable.

Sorting of waste was enhanced

We monitor waste management, recycling rate and the costs of waste management based on reports provided by our waste management partner.

We use the average costs of a tonne of waste as the indicator. The better waste is sorted and can be recycled, the less costs we incur per tonne of waste.

Our target for 2018 was EUR 140/tonne of waste. We succeeded better than expected in this regard, and the average cost per tonne of waste was approximately EUR 120. ■



ENERGY EFFICIENCY SAVES MONEY AND THE ENVIRONMENT

A SMART BUILDING SERVICES SYSTEM saves on energy consumption without compromising indoor conditions. The demand for Are's proprietary energy-efficiency Are Sensus low-energy system has become significant. Sensus is already utilised as the building services system for 42 buildings, with a total floor area of almost 330,000 gross m².

The Sensus system primarily uses the same equipment for heating and cooling, which significantly enhances energy efficiency.

Energy consumption has decreased by up to 30% at Sensus sites. At the same time, the electricity consumption of building systems can be decreased by up to one-fourth. ■

 The energy savings achieved by the system could heat 2,000 detached homes a year.

KAUKO PELLIKKA, DIRECTOR, BUSINESS DEVELOPMENT, ARE OY



30%

savings on purchased energy

ARE SENSUS®

A smart building services system saves on energy consumption without compromising indoor conditions. Make use of free property energy and achieve up to 30% savings on purchased energy.

SMART MAINTENANCE SAVES ENERGY AT CITYCON

Citycon is the leading shopping centre owner in Finland. High-quality customer service, sustainability, ecology and energy efficiency are themes that are emphasised in the maintenance of shopping centres. Goal-oriented operation requires a committed and close network of partners.

ONE OF CITYCON'S partners is Are, having been responsible for the technical maintenance and servicing of shopping centres since 2013. According to **Esa Sihvonen**, Property Manager at Citycon, one of the most significant features of smart maintenance is the systematicity of operations and joint development of the property base.

In practice, systematicity means that measurable targets are set for areas considered to be important, and the operations of the property are guided proactively in accordance with the principles of continuous improvement. Success requires close cooperation between partners.

Sihvonen emphasises the results achieved through cooperation, both with regard to Are and other parties involved in the maintenance of the property. As examples of key results, Sihvonen mentions energy consumption meeting the targets and the certainty provided by proactive operation.

"Repairs made through on-call visits are twice as expensive than planned repairs, and the number of on-call visits has decreased by approximately 25% through smart maintenance," Sihvonen explains.

Energy savings without compromising indoor conditions

Are and other partners provide Sihvonen with justified proposals for energy efficiency and condition investments. Smart investments and predictive maintenance optimise the life cycle operations of the shopping centre, lower the maintenance costs of the premises and guarantee good conditions for the customers and employees of the property.

Citycon has achieved approximately 5–8% annual energy savings. In just a year, this translates into additional savings of EUR 400,000 in the energy bill.

"It is not only about money. Investors, tenants and customers pay attention to ecology, and it is an important value to us as well.

"Smart maintenance also provides optimum automation, ensuring that the conditions are the best possible from the point of view of the customer visiting the shopping centre. In practice, comfortable conditions also mean that people are comfortable in the shopping centre," Sihvonen remarks. ■



MANAGEMENT BOARD 12/2018



Heikki Pesu
CEO



Laura Kekarainen
CFO



Jerri Loikkanen
Strategy Director



Kaisa Tuuliainen
HR Director



Pekka Björkman
SVP, Procurement



Seppo Korhonen
Business Area Director,
Southern Finland



Marko Otranen
Business Area Director,
Western Finland



Vesa Hakkarainen
Business Area Director
Eastern Finland

BOARD OF DIRECTORS 12/2018



Timo Kohtamäki
Lic.Sc. (Tech.), Member
of Board since 2015



Mika Kalliomaa
DSc (Milit.), Member of
Board
since 2017



Erkka Valkila
Engineer, Member of Board
since 2017



Lasse Heinonen
M.Sc. (Econ. & Bus.
Adm.), Member of Board
since 2017



Martti Koivisto
Business student, Mem-
ber of Board since 2018



Erik Toivanen
Carpenter, Upholsterer
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