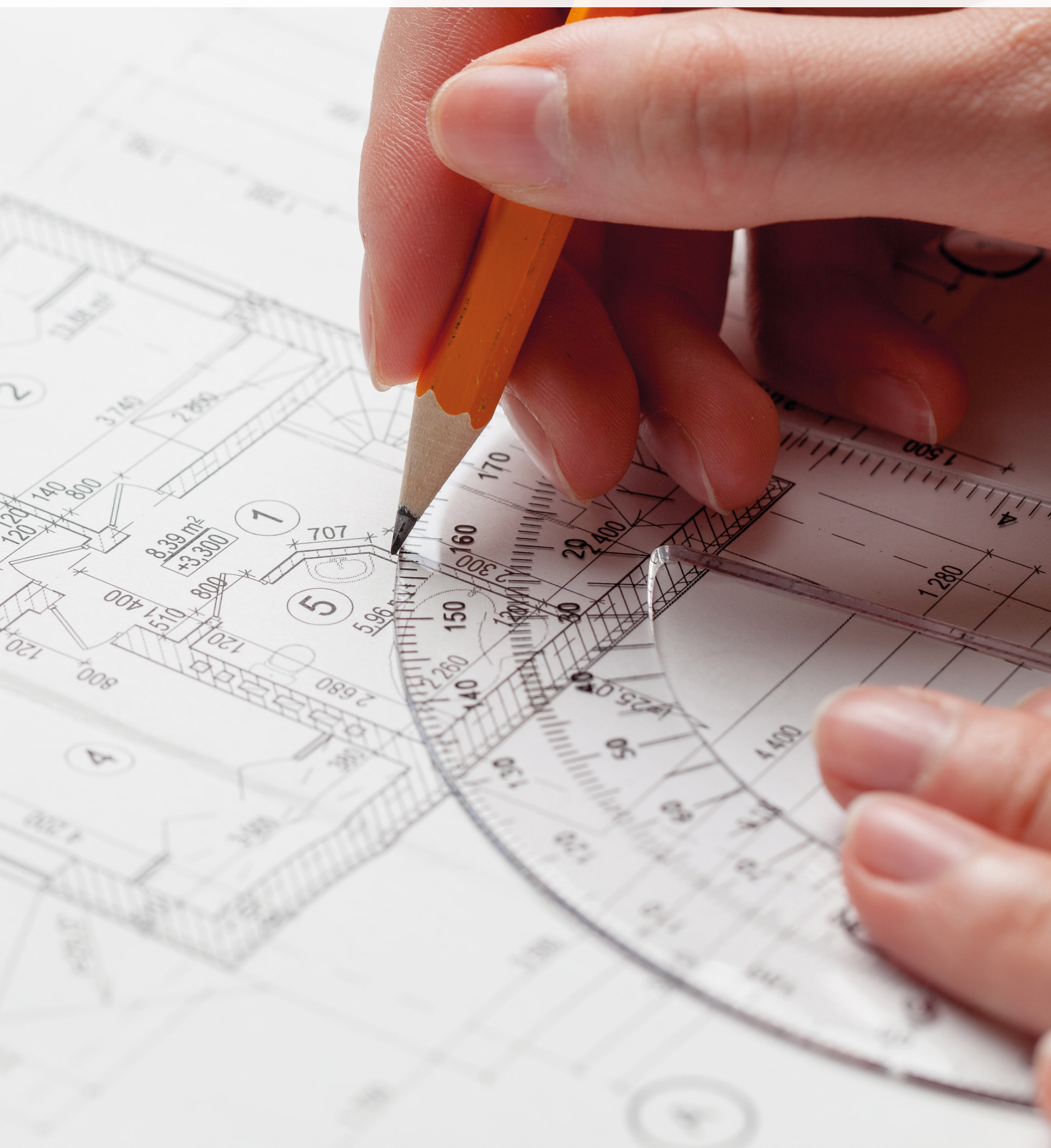


LEHTO GROUP PLC BUSINESS REVIEW,  
1 JANUARY – 31 MARCH 2017

**Net sales up by 29.5%, operating profit  
was 8.5% of net sales**



*This is not an interim report as specified in the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act and discloses business reviews for the first three and nine month periods of the year, in which key information regarding the company's financial situation and development will be presented.*

*The financial information presented in this business review is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.*

## Financial development January–March 2017

<b>GROUP</b>	<b>1–3/2017</b>	<b>1–3/2016</b>	<b>1–12/2016</b>
Net sales, EUR million	80.6	62.3	361.8
Change in net sales, %	29.5%	23.4%	31.3%
Operating profit, EUR million	6.8	4.0	40.4
Operating profit, % of net sales	8.5%	6.5%	11.2%
Profit for the period, EUR million	5.3	3.0	31.9
Order backlog at period end, EUR million	327.7	178.1	309.1
Earnings per share, EUR	0.09	0.07	0.59
Cash and cash equivalents, EUR million	77.8	25.2	67.7
Interest-bearing liabilities, EUR million	27.1	12.3	16.6
Equity ratio, %	62.1%	34.8%	60.4%
Net gearing ratio, %	-41.9%	-45.8%	-44.2%

Compared to the corresponding period of the previous year, Lehto Group's net sales for January–March grew by 29.5%, to EUR 80.6 (62.3) million. Operating profit was EUR 6.8 (4.0) million, or 8.5% (6.5%) of net sales. Net sales grew in the Business Premises, Social Care and Educational Premises and Building Renovation service areas but declined in the Housing service area.

### NET SALES BY SERVICE AREA, EUR MILLION

	<b>1–3/2017</b>	<b>1–3/2016</b>	<b>CHANGE</b>	<b>1–12/2016</b>
Business Premises	34.2	20.5	66.7%	129.5
Housing	10.7	28.3	-62.3%	136.0
Social Care and Educational Premises	19.3	7.1	170.2%	62.1
Building Renovation	16.5	6.3	160.4%	34.2
<b>Total</b>	<b>80.6</b>	<b>62.3</b>	<b>29.5%</b>	<b>361.8</b>

## **BUSINESS PREMISES**

Net sales in the Business Premises service area grew by 66.7%. The growth is based on the sales of two developer contracting business premises as well as the increased number and size of projects. In the first quarter, a total of 10 business premises were completed across Finland. At the end of the reporting period, a total of 16 business premises were under construction.

Lehto continued the development project of the Lippulaiva shopping centre, in Espoonlahti, together with Citycon Oyj and designers. The design and planning phase for Lippulaiva has taken longer than anticipated, but the terrain works related to the project and the construction of the Pikkulaiva temporary shopping centre has started on schedule. Lehto estimates that the contract for the construction of the actual Lippulaiva shopping centre will be signed in the summer of 2017. The project involves uncertainties that are typical for property development.

## **HOUSING**

Net sales in the Housing service area declined by 62.3% year on year. Although the volume of housing construction increased, only the income of one property containing a total of 24 apartments was recognised in the period's net sales on the basis of recognition upon delivery. A total of 963 new apartments were under construction at the end of the reporting period, for which most of the net sales will be recognised later.

A total of 157 apartments were sold in the review period. At the end of the review period, there were a total of 154 unsold apartments in the properties under construction and 3 unsold apartments in finished properties. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other Finnish growth centres.

## **SOCIAL CARE AND EDUCATIONAL PREMISES**

Growth was extremely strong in the Social Care and Educational Premises service area, with a 170.2% increase in net sales to EUR 19.3 (7.1) million. A total of 8 new care homes for senior citizens were completed in the reporting period. At the end of the period, 18 care homes, two day care centres and one school were under construction. One of the day care centres is being built for a municipal customer, while the other is for a private customer. The care homes are being built for the needs of private care sector providers, and the buyers are funds that invest in care sector properties.

Lehto continued to invest in the development of its line of school buildings and concepts and participated in competitive tenders for the construction of schools. After the end of the reporting period, Lehto won a tender for building a school for 450 students in the municipality of Liminka. The school will have an adjoining preschool for 40 pupils.

## **BUILDING RENOVATION**

Net sales in Building Renovation grew by 160.4% to EUR 16.5 (6.3) million. The growth in net sales was based on the growth resulting from the acquisition of Rakennus Oy Wareco in October 2016 and the completion and income recognition of a developer contracting building renovation project during the period.

Net sales also grew in the pipeline renovation business year on year. At the end of the reporting period, Lehto had two developer contracting projects ongoing in the building renovation service area. These are expected to be completed in 2017. There were three completed unsold apartments at the end of the period.



## FACTORY PRODUCTION

Lehto manufactures a variety of building modules and elements at its own production facilities mainly for its own use. Due to strong business growth, Lehto initiated measures during the first quarter to increase its factory capacity. Capacity will be increased by acquiring or building new production facilities, improving production processes and increasing the utilisation rate of the production facilities.

## ORDER BACKLOG

The Group's order backlog grew to EUR 327.7 million (EUR 309,1 million on 31 December 2016). Order backlog of the Business Premises, Housing, and Building Renovation service areas grew, but declined in the Social Care and Educational Premises service area. A construction project is included in the order backlog once the project contract has been signed or, in the case of developer contracting projects, once the decision to begin construction has been made and the contract has been signed.

## Outlook for 2017

The financial outlook has remained the same. In 2017, Lehto's net sales is expected to grow at minimum 30% (31.3% in 2016) and operating profit is expected to be above 10% (11.2% in 2016) of the net sales.

The outlook is based on the information available to the company on the progress of ongoing construction projects and the company's estimate of construction projects to be started and sold in 2017.

The key factors affecting net sales and operating profit are the completion schedules of developer contracting housing production, the number of apartments sold as well as starts and sales of business premises and social care and educational premises.

## Balance sheet and financing

<b>CONSOLIDATED BALANCE SHEET, EUR MILLION</b>	<b>31 Mar 2017</b>	<b>31 Mar 2016</b>	<b>31 Dec 2016</b>
Non-current assets	22.6	16.2	21.5
Current assets			
Inventories	93.5	47.0	77.5
Current receivables	82.4	47.0	92.0
Cash and cash equivalents	77.8	25.2	67.7
<b>Total assets</b>	<b>276.3</b>	<b>135.4</b>	<b>258.7</b>
Equity	121.1	28.3	115.6
Financial liabilities	27.1	12.3	16.6
Prepayment received	81.5	54.0	67.3
Other payables	46.7	40.8	59.2
<b>Total equity and liabilities</b>	<b>276.3</b>	<b>135.4</b>	<b>258.7</b>

The Group's financial position remained strong. At the end of the period, net gearing was -41.9% (31 Dec. 2016: -44,2%) and the equity ratio was 62.1% (31 Dec. 2016: 60.4%). The growth in inventories and advance payments was mainly due to the large number of incomplete housing construction projects at the end of the reporting period. The amount of cash reserves grew to EUR 77.8 million and the amount of interest-bearing liabilities grew to EUR 27.1 million. Interest-bearing liabilities were mainly used to finance projects in the Social Care and Educational Premises service area during construction, as well as for plot acquisitions in the Housing service area.

## Personnel

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The average number of personnel during the review period was 838. The number of personnel at period end was 889 (31 Dec 2016: 747). About 53% of the Group's personnel are salaried employees and 47% employees working at construction sites.

## Other events during the reporting period

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During the reporting period, Lehto appointed management for its service areas with responsibility for managing the business according to service area strategies. The main target for the organisational change is to integrate the overlapping operations of the subsidiaries and to utilise their resources and knowledge more efficiently within the service area.

Lehto Group's new executive board as of 1 March 2017 is the following:

- Hannu Lehto, Chief Executive Officer
- Asko Myllymäki, Chief Commercial Officer
- Veli-Pekka Paloranta, Chief Financial Officer
- Pasi Kokko, EVP, Housing service area
- Jaakko Heikkilä, EVP, Business Premises service area
- Tuomo Mertaniemi, EVP, Social Care and Educational Premises service area
- Pekka Lindeman, EVP, Building Renovation service area
- Timo Reiniluoto, EVP, Business Support Services

## Significant events after the reporting period

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In accordance with the proposal of the Board of Directors, the Annual General Meeting of 11 April 2017 decided that the dividend payable for the financial year ending on 31 December 2016 is EUR 0.22 per share, or a total of EUR 12,815,165.44. The dividend payment date was 24 April 2017.

The AGM confirmed the number of Board members to be five. Pertti Huuskonen was re-elected as Chairman of the Board and Martti Karppinen, Mikko Räsänen, Päivi Timonen and Sakari Ahdekivi as the other members.

The Board members' term of office will expire at the 2018 Annual General Meeting. In its organisational meeting, the Board of Directors decided to establish an Audit Committee and elected Mikko Räsänen as its Chairman and Päivi Timonen and Sakari Ahdekivi as members.

The above-mentioned and other decisions of the Annual General Meeting were disclosed in the stock exchange release of 11 April 2017.

On 24 April 2017, Lehto announced that its significant shareholders are exploring options for reducing their ownership in Lehto Group Plc. Shareholders representing 69.7 per cent of the outstanding shares in the company have informed the company that they have mandated OP Corporate Bank and Pareto Securities to jointly explore options for reducing their ownership in the company in one or several stages. Lehto believes that the planned share sale may improve the liquidity of the company's shares.

The intention of the shareholders is to sell no more than ca. 30 per cent of their ownership in the company with the exception of the company's CEO Hannu Lehto, who has agreed to reduce his ownership (held through Lehto Invest Oy) by not more than 5.0 per cent. The shareholders will thus remain significant shareholders in Lehto after any potential transactions.

The amount of shares to be potentially sold will depend on the demand and price achieved, but will not in total represent more than 7,200,000 shares in the company or 12.4 per cent of all the company's shares. The shareholders have agreed not to sell the remainder of their holdings in Lehto during a 180-day period if the transaction(s) to reduce their ownership is completed.

### **Vantaa 10 May 2017**

Lehto Group Plc  
Board of Directors

Further information:

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### **LEHTO GROUP IN BRIEF**

*Lehto is the fastest growing construction and real estate group in Finland. We operate in four service areas: Business Premises, Housing, Social Care and Educational Premises, and Building Renovation. We are the innovator and pioneer of the construction sector. Our economically driven operating model makes construction more profitable, ensures the quality of construction and brings significant time and cost savings to the customer. We employ 889 people (Q1 2017) and our net sales for 2016 amounted to EUR 362 million.*