LEHTO GROUP PLC BUSINESS REVIEW,
1 JANUARY – 31 MARCH 2018

Net sales up by 37.2%, operating profit was 2.3% 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 2018

GROUP	1–3/2018	1–3/2017	1–12/2017
Net sales, EUR million	103.1	75.2	597.6
Change in net sales, %	37.2%	97.5%	74.5%
Operating profit, EUR million	2.3	4.9	64.6
Operating profit, % of net sales	2.3%	6.5%	10.8%
Profit for the period, EUR million	0.4	3.7	51.6
Order backlog at period end, EUR million	539.6	341.6	538.1
Earnings per share, EUR	0.01	0.06	0.89
Cash and cash equivalents, EUR million	52.1	77.8	68.0
Interest-bearing liabilities, EUR million	51.4	27.1	36.9
Equity ratio, %	57.9%	60.9%	56.3%
Net gearing ratio, %	-0.5%	-44.1%	-20.6%

As from the beginning of 2018, the Group has started to apply IFRS 15, which concerns the recognition of revenue. In this review, the comparison information for 2017 has been adjusted in accordance with IFRS 15 principles. Additional information on the impacts of IFRS 15 on Lehto's result and financial position is provided in a stock exchange release published on 3 May 2018.

- Net sales grew by 37.2% year-on-year and amounted to EUR 103.1 (75.2) million. Growth was seen in the Business Premises, Housing and Social Care and Educational Premises service areas. The net sales of Building Renovation were lower than in the comparison period.
- Operating profit weakened to EUR 2.3 (4.9) million and was 2.3% (6.5%) of net sales. Compared with the comparison period in all services area, net sales for the review period comprised a significantly greater volume of contracting, in which project margins are typically lower than in developer contracting projects. No developer contracting projects in which income is recognised upon delivery were completed in the Housing service area.
- The order backlog at the end of the review period was EUR 539.6 million (EUR 538.1 million on 31 December 2017)
- Financial position remained excellent, with an equity ratio of 57.9% (56.3% on 31 December 2017)
- Factory production capacity was expanded by acquiring factory operations in Hartola.

NET SALES BY SERVICE AREA, EUR MILLION	1–3/2018	1–3/2017	CHANGE	1–12/2017
Business Premises	47.7	34.2	39.5%	181.2
Housing	27.7	10.7	159.9%	232.2
Social Care and Educational Premises	15.0	13.8	9.0%	109.1
Building Renovation	12.7	16.5	-23.3%	75.1
Total	**103.1**	**75.2**	**37.2%**	**597.6**

BUSINESS PREMISES

Net sales in the Business Premises service area grew by 39.5% from the comparison period to EUR 47,7 (34,2) million. Growth was driven by the increase in both the number and size of projects. In the first quarter, a total of five business premises were completed across Finland. At the end of the reporting period, a total of 25 business premises were under construction. The largest projects under construction were DSV's logistics centre in Vantaa and offices on Väritehtaankatu, also in Vantaa.

Lehto continued the development project of the Lippulaiva shopping centre, in Espoo, together with Citycon Oyj and designers. In October 2017, Lehto and Citycon signed the main contract to complete the development phase of the shopping centre. According to the main contract, Lehto and Citycon continued to develop and plan the project with the aim of completing a final contract agreement for the shopping centre and a housing contract for the construction of the residential units by 31 March 2018. After the end of the review period, Lehto and Citycon decided to extend the main contract to the end of May 2018. The project involves uncertainties that are typical of property development projects.

HOUSING

Net sales in the Housing service area grew by 159.1% from the comparison period to EUR 27.7 (10.7) million. Net sales in the review period were generated solely by projects in the form of contracting; no projects in which income is recognised upon delivery were completed. A total of 37 housing construction projects, amounting to 2,245 apartments, were under construction at the end of the period. In addition, accommodations are being built for about one thousand workers at the Pyhäjoki nuclear power plant area and accommodations for 50 persons for the Defence Forces in Santahamina. Of the ongoing projects, 21 are developer contracting projects that will be recognised as income upon delivery and 18 are in the form of contracting.

The number of unsold apartments has remained low. At the end of the review period, the number of unsold finished apartments was 7.

SOCIAL CARE AND EDUCATIONAL PREMISES

Net sales in the Social Care and Educational Premises service area grew by 9.0% from the comparison period to EUR 15.0 million. Six nursing home and assisted living units were completed during the review period, of which four were handed over to the clients. At the end of the period, 21 nursing homes, two day care centres and one school were under construction.

In December 2017, Lehto received a contract for building three modular day care centres in the municipality of Botkyrka in Sweden. The order comprises three day care centres designed for a total of 180 children. During the review period, Lehto carried out preparatory work on the project, particularly with respect to module design and manufacture. It is intended that the modules will be completed at Lehto's Hartola factory and then transported to Sweden.

BUILDING RENOVATION

Net sales in Building Renovation declined by 23.3% from the comparison period to EUR 12.7 (16.5) million. Net sales for the review period comprised contracting-based pipeline renovation and basic renovation projects. Unlike in the comparison period, no developer contracting renovation projects were completed in January-March.

Five pipeline renovation projects were completed during the review period. At the end of the period, 10 pipeline renovation projects, four basic renovation projects and three developer contracting-based renovation projects were in progress.

The largest ongoing basic renovation projects involve the conversion of old offices on Satamakatu and Kanavakatu in Katajanokka, Helsinki, into a hotel and apartments, and developer contracting renovation projects in the centre of Helsinki and Hämeenlinna in which existing premises are converted into apartments. At the end of the review period, the number of unsold finished apartments was 20.

FACTORY PRODUCTION

Lehto manufactures a variety of building modules and elements at its own production facilities for its own use. During the review period, Lehto continued to expand and boost the efficiency of its factory capacity.

In December 2017, Lehto started building a new factory of about 9,000 m2 in Oulainen. The plan is to concentrate logistics and warehouse functions and the manufacturing of bathroom modules, kitchen furniture and other fixtures and fittings in the factory. The total value of the investment is some EUR 7.5 million. It is estimated that the factory will be ready for production in August 2018.

In March 2018, Lehto acquired the factory operations of Pyhännän Rakennustuote Oy in Hartola. In this transaction, leased premises with about 20,000 m2 of floor area owned by the Municipality of Hartola, production equipment for the manufacture of wood elements and modules, and 75 employees were transferred to Lehto. Following the acquisition of the Hartola factory, Lehto has building element and module production units in Humppila, Oulainen, Oulu and Ii.

ORDER BACKLOG

The Group's order backlog grew to EUR 539.6 million (EUR 538.1 million on 31 December 2017). The order backlog grew in the Housing and Social Care and Educational Premises service areas, but declined slightly in the Business Premises and Building Renovation service areas. 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 2018

Lehto estimates that the Group's net sales for 2018 will grow by about 20-30% from 2017 (EUR 597.6 million in 2017), and operating profit is expected to be more than 10% of net sales (10.8% in 2017). The accrual of net sales and operating profit is expected to concentrate at the end of the year.

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 2018.

The most significant risks related to net sales and operating profit are the availability of labour, the threat of a labour conflict, delays in the launch of projects currently at the negotiation phase, and the increase in the prices of raw materials.

Balance sheet and financing

CONSOLIDATED BALANCE SHEET, EUR MILLION	31 Mar 2018	31 Mar 2017	31 Dec 2017
Non-current assets	27.0	24.1	25.1
Current assets			
Inventories	172.0	110.4	132.9
Current receivables	110.6	57.7	111.2
Cash and cash equivalents	52.1	77.8	68.0
Total assets	**361.6**	**270.1**	**337.2**
Equity	154.0	114.8	150.7
Financial liabilities	51.4	27.1	36.9
Advances received	95.6	81.5	69.3
Other payables	60.6	46.7	80.2
Total equity and liabilities	**361.6**	**270.1**	**337.2**

The Group's financial position remained strong. At the end of the period, net gearing was-0.5% (31 Dec. 2017: -20.6%) and the equity ratio was 57.9% (31 Dec. 2017: 56.3%). The growth in inventories and advance payments was due to the large number of incomplete developer contracting projects at the end of the reporting period. The amount of cash reserves decreased to EUR 52.1 million and the amount of interest-bearing liabilities grew to EUR 51.4 million. Interest-bearing liabilities were mainly drawn to finance projects in the Social Care and Educational Premises service area during construction, projects in the Housing service area and the factory investment in Oulainen.

Personnel

The average number of personnel during the review period was 1,270 (838). The number of personnel at period end was 1,306 (31 Dec. 2017: 1,184). About 47% of the Group's personnel are salaried employees and 53% employees working at construction sites.

Other events during the reporting period

On 20 March 2018, Lehto announced that Pekka Korkala, M.Sc. (Tech.), in charge of factory production, has been chosen into Lehto Group's Executive Board, effective as of 20 March 2018. Korkala has been CEO of Takuuelementti Oy, a subsidiary of Lehto Group Plc, since 10 July 2017, and will continue in this position. Korkala has long experience in business and factory production management in, for example, the vehicle industry in Finland and abroad.

The Group's Chief Operational Officer Asko Myllymäki left the Group's Executive Board as of 20 March 2018, but will continue in the Group as a commercial expert until about the end of 2018. Myllymäki's duties are related to improving sales and project functions, and he reports directly to the Group's CEO.

As of 20 March 2018, the Executive Board consists of the following:

- Hannu Lehto, CEO
- 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
- Pekka Korkala, EVP, Factory production

Events after the reporting period

In accordance with the proposal of the Board of Directors, the Annual General Meeting of 11 April 2018 decided that the dividend payable for the financial year ending on 31 December 2017 is EUR 0.34 per share, or a total of EUR 19,805,255.68. The dividend was paid to shareholders who on the record date for the dividend payment, 13 April 2018, were recorded in the shareholders' register held by Euroclear Finland Oy. The dividend payment date was 20 April 2018.

The AGM confirmed the number of Board members to be five. Pursuant to the proposal made by the shareholders' nomination committee, Martti Karppinen, Mikko Räsänen, Päivi Timonen and Sakari Ahdekivi were reelected as members of the Board of Directors, and Pertti Korhonen was elected as a new member. Pertti Huuskonen stepped down from the Board of Directors. The Board members' term of office will expire at the 2019 Annual General Meeting.

At its organisation meeting, the Board of Directors decided to elect Martti Karppinen as its Chairman and also decided to establish an Audit Committee. Sakari Ahdekivi was elected as the Chairman and Päivi Timonen and Pertti Korhonen as the members of the committee.

The above-mentioned and other decisions of the Annual General Meeting were disclosed in the stock exchange release of 11 April 2018.

On 11 April 2018, Lehto announced that Lehto and Citycon have extended their preliminary agreement for the development and design of the Lippulaiva shopping centre project in Espoo. The aim is to sign the final contract agreement and a housing contract for the construction of the residential units by the end of May 2018.

Vantaa 2 May 2018

Lehto Group Plc
Board of Directors

Further information:

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