

Lehto Group Plc's half-year financial report 1 January–30 June 2018

# **Net sales up by 36.4%, operating profit 4.7% of net sales in January-June**



*This half-year financial report has been prepared in accordance with the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act. 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.*

## Summary

LEHTO GROUP	1–6/2018	1–6/2017	1–12/2017
Net sales, EUR million	291.9	213.9	597.6
Change in net sales, %	36.4%	52.2%	74.5%
Operating profit, EUR million	13.7	15.4	64.6
Operating profit, % of net sales	4.7%	7.2%	10.8%
Profit for the period, EUR million	10.8	12.1	51.6
Order backlog at period end, EUR million	665.0	498.2	538.1
Earnings per share, EUR	0.19	0.21	0.89
Cash and cash equivalents, EUR million	13.0	58.5	68.0
Interest-bearing liabilities, EUR million	59.6	41.9	36.9
Equity ratio, %	50.1%	52.9%	56.3%
Net gearing ratio, %	32.3%	-15.0%	-20.6%

Compared to the corresponding period of the previous year, Lehto Group's net sales for January–June grew by 36.4%, to EUR 291.9 (213.9) million. Net sales grew in the Business Premises, Housing, and Social Care and Educational Premises service areas but declined in the Building Renovation service area.

Operating profit was EUR 13.7 (15.4) million, or 4.7% (7.2%) of net sales. The year-on-year decline in operating profit is due particularly to the weaker project margins in the Social Care and Educational Premises and Building Renovation service areas than in the comparison period.

The Group's order backlog grew to EUR 665.0 million (EUR 538.1 million on 31 December 2017). The order backlog grew in the Housing, Business Premises and Building Renovation service areas, 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.

NET SALES BY SERVICE AREA	1–6/2018	1–6/2017	CHANGE	1–12/2017
Business Premises	109.2	72.6	50.4%	181.2
Housing	96.4	74.4	29.5%	232.2
Social Care and Educational Premises	56.8	34.3	65.7%	109.1
Building Renovation	29.5	32.6	-9.6%	75.1
<b>Total</b>	<b>291.9</b>	<b>213.9</b>	<b>36.4%</b>	<b>597.6</b>

## Lehto's CEO Hannu Lehto:



"In the first half of the year, our net sales grew in line with our objectives, but operating profit fell short of the comparison period. Project margins matched our targets in the Housing and Business Premises service areas, but were lower in the Social Care and Educational Premises and Building Renovation service areas. Profitability is expected to rise significantly in the second half of the year, especially due to the completion and income recognition of developer contracting projects.

Our sales developed well. We received many new orders during the review period, the most significant of which is the Ideapark project in Seinäjoki. We also started up many new housing and building renovation projects. The order backlog grew by 23.6% from the end of the previous year to EUR 665.0 million.

We have continued to invest in the development of concepts and modules. We have attracted several new professionals to our team, including in the fields construction, digitalisation, productisation and factory production. We are confident that these investments in improved profitability are the key in building our competitive advantage in the long run.

Construction activity will continue to be strong in Finland this year as well, but many research institutions forecast that construction growth will slow down. The Confederation of Finnish Construction Industries RT estimates that growth will slacken to two per cent this year from last year's rate of five per cent. Due to the ongoing boom, the availability of skilled labour, particularly supervisors and designers, remains our key challenge. The prices of certain raw materials and components have also been higher than in 2017.

In the second half of the year, we will focus on managing the challenges caused by growth by ensuring that every project is implemented within the planned schedule and in the planned manner and by securing the growth of working capital."

## Outlook for 2018

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Lehto updated its profit outlook for 2018 in a stock exchange release published on 1 August 2018. In the updated outlook, Lehto estimates that the Group's net sales for 2018 will grow by 20-30% from 2017 (EUR 597.6 million in 2017) and operating profit is expected to be approximately 8-9% of net sales (2017: 10.8%). The accrual of net sales and operating profit is expected to be strongly weighted towards the end of the year. The figures for the comparison year 2017 have been adjusted to reflect the accounting principles of the IFRS 15 standard adopted on 1 January 2018.

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 main risks associated with the development of net sales and operating profit are related to the completion of ongoing projects within the estimated timeframe and costs, delays in the start of projects currently in the negotiation phase, the availability of skilled labour, and an increase in input prices.

## Video presentation on the half-year report

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Lehto will release a video presentation on its half-year report for January-June 2018 on its website on Thursday, 9 August 2018 at 8:30 a.m. (EET) at [www.lehto.fi/sijoittajille](http://www.lehto.fi/sijoittajille). The presentation will also be available on the company's website after this.

## Business development in the review period

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### **BUSINESS PREMISES**

In the Business Premises service area, Lehto builds office premises, retail premises, logistics, warehouse and production facilities, leisure facilities and large shopping and activity centres. Business premises are designed according to the customers' needs and are built using the structural and spatial solutions developed or tried and tested by Lehto. The service area serves local, national and international customers.

Most of the business in the Business Premises service area comprises turnkey projects, where Lehto assumes overall responsibility for both design and construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and designs and builds the property either wholly or partly at its own risk.

Net sales in the Business Premises service area grew by 50.4% year-on-year to EUR 109.2 (72.6) million in the review period. A total of 12 sites were completed in the review period, the largest of which was office and hotel building in Tikkurila, 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. In a release published on 11 April 2018, Lehto announced that Lehto and Citycon would continue the development and planning of the Lippulaiva project with the aim of signing the final agreements on construction and housing development by the end of May 2018. On 1 June 2018, Lehto announced that an agreement had not been concluded by the end of May, but that the parties had decided to continue their negotiations. Groundworks for the shopping centre are continuing as planned under a separate contract. The project involves uncertainties that are typical of property development.

In May, Lehto announced that the city council of Jyväskylä had decided, at a meeting held on 28 May 2018, to initiate the Hippos2020 project together with a consortium of Lehto Group and Fennia Asset Management Ltd and had accepted the main principles of the agreements and plans of the project. The project involves uncertainties typical of all property development projects, such as the availability of financing or finding tenants and the level of the tenants' commitment.

In June, Lehto announced that it had signed a turnkey contract with Koy Seinäjoen Ideapark, a subsidiary of Sukari Invest Oy, for the construction of the Ideapark shopping centre in Seinäjoki. The value of the contract is around EUR 65 million, in addition to which Lehto will be in charge of additional and alteration work to be specified later.

Lehto attempts to increase the use of factory-made modules in its Business Premises service area since we expect this to give us a competitive advantage, particularly in hotel and office projects.

The order backlog of the Business Premises service area grew during the review period and was EUR 163.4 million at the end of the period (EUR 127.3 million on 31 December 2017). The order backlog does not include the possible revenue stream from the Lippulaiva and Hippos2020 projects.

## HOUSING

In the Housing service area, Lehto builds new blocks of flats, balcony access houses and terraced and detached houses as part of area construction in Finland's growth centres, especially in the Helsinki metropolitan area. The majority of Lehto's housing projects are developer contracting projects, in which Lehto designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. Customers include private persons as well as private and institutional investors.

Most housing properties are concrete apartment buildings and are built using the kitchen/bathroom modules developed by Lehto. The modules are completely prefabricated at Lehto's own factory and transported to the construction site, where they are lowered into the building through the roof. This building method ensures rapid completion of construction, improves quality and produces cost savings. Lehto's factories also manufacture wall elements, windows, fixtures and fittings, as well as wooden space elements that can be used to rapidly build terraced houses and balcony access blocks particularly well suited for urban environments.

During January-June, net sales in the Housing service area grew by 29.5% from the comparison period to EUR 96.4 (74.4) million. A total of 11 housing projects, amounting to 478 apartments, were completed in the period.

A total of 43 housing projects, amounting to 2,576 apartments, were under construction at the end of the period. At the end of the review period, the number of unsold finished apartments was 14.

In May, Lehto Asunnot Oy (a subsidiary of Lehto Group Plc) and Avara Oy signed a framework agreement concerning a housing portfolio that involves the construction of 340 homes in five communities around Finland. Avara will acquire the properties for its Avara Asuinkiinteistörahasto I Ky fund. The units are at Kalasatama in Helsinki and in Kirkkonummi, Hämeenlinna, Kuopio and Oulu. The transaction price is over EUR 53 million. Some of the units are already under construction. The sites will mainly be completed during 2019 and 2020.

The order backlog of the Housing service area at the end of the review period was EUR 292.0 million (EUR 216.9 million on 31 December 2017).

### **SOCIAL CARE AND EDUCATIONAL PREMISES**

In the Social Care and Educational Premises service area, Lehto designs and builds nursing homes, day care centres and schools to meet the needs of nationwide care service providers and municipalities.

The construction projects are implemented either under ordinary construction contracts or as investment transactions, where Lehto signs a lease agreement with the service operator and sells the completed property to a fund that invests in properties in the sector.

Growth was strong in the service area, with a 65.7% increase in net sales to EUR 56.8 (34.3) million year on year. A total of 17 new nursing homes for senior citizens were completed in the reporting period, and at the end of the period, 17 nursing homes, two day care centres and three schools were under construction.

The majority of the properties built by the service area are 1-2-storey wooden buildings, but it is also building an increasing number of diverse and multi-storey concrete buildings. The implementation of individualised care facility projects requires more planning and work than before, which contributed to the decrease in the project margins of this service area during the review period.

In addition to nursing homes, the service area is also building assisted living housing. The number of elderly people is rising in Finland and they need diverse living solutions with care services. During the review period, Lehto carried out a wide-ranging survey of the living needs of elderly people. On the basis of the responses, we can develop our construction business to meet needs better.

Lehto continued to develop the commercial product portfolio for schools and in spring, Lehto launched a development programme to produce commercially configurable and technically modular schools and day care centres. There is an immediate need in the market for both temporary premises and permanent schools. The first modules have been completed and they will be delivered in autumn this year. The first deliveries will go to Helsinki and the municipality of Botkyrka in Sweden.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 91.6 million (EUR 100.3 million on 31 December 2017).

### **BUILDING RENOVATION**

Lehto's Building Renovation service area involves the performance of pipeline renovations, basic renovations and renovation projects in the form of developer contracting, in which Lehto buys an old building, renovates

or converts it for residential use, and sells the renovated apartments on to customers. Lehto also carries out projects in which 1-2 additional floors are built on top of an existing block of flats.

Net sales in Building Renovation declined by 9.6% from the comparison period to EUR 29.5 (32.6) 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 recognised as income upon delivery were completed in January-June.

Five pipeline renovation projects and three basic renovation projects were completed during the review period. At the end of the period, 17 contracting-based pipeline renovation projects, three basic renovation projects and three developer contracting renovation projects recognised as income upon delivery were ongoing.

The largest ongoing renovation projects involve the conversion of old offices on Satamakatu and Kanavakatu in Katajanokka, Helsinki, into a hotel and apartments, and basic renovation projects in the centre of Helsinki and Kuopio in which existing premises are converted into apartments.

During the review period, the pipeline renovation business developed according to plan, but project margins in basic renovation projects remained clearly below target or were even negative. The increase in project costs results from the higher-than-expected amount of work and the increase in the prices of subcontracted work and certain raw materials. Lehto has reorganised its resources in the fields of supervision, planning management and procurement in order to improve its project cost management.

Lehto continued to develop its product concept for the construction of additional floors. In 2019, the company intends to launch a solution for building additional floors for blocks of flats using factory-produced elements. This solution responds to the objective of compacting the urban structure in growth centres by increasing housing construction in areas with preexisting transport connections and service networks. For housing cooperatives, adding floors to blocks of flats is a means of financing the costs of basic and pipeline renovations.

At the end of the review period, there were a total of 21 completed, unsold apartments in the Building Renovation service area. The order backlog amounted to EUR 118.0 million (EUR 93.6 million on 31 December 2017).

## **SWEDISH OPERATIONS**

Lehto established a subsidiary in Sweden in August 2017. This fledgling unit has started up its first projects. It is currently carrying out one business premises project and a day care centre project in which three modular day care centres will be built in the municipality of Botkyrka. The modules will be built at the Hartola factory in Finland and transported to Botkyrka for final assembly. The unit is also starting up its first housing construction project in the Stockholm region.

Lehto attempts to expand its activities in Sweden, particularly in the markets of modular schools and day care centres as well as in the markets of reasonably priced small apartments in Stockholm.

## **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 m<sup>2</sup> 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 September 2018.

In March 2018, Lehto acquired the factory operations of Pyhännän Rakennustuote Oy in Hartola. In this transaction, leased premises with about 20,000 m<sup>2</sup> 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. In addition to Hartola factory, Lehto has building element and module production units in Humppila, Oulainen, Oulu and Ii.

## Balance sheet and financing

<b>CONSOLIDATED BALANCE SHEET, EUR MILLION</b>	<b>30 JUN 2018</b>	<b>30 JUN 2017</b>	<b>31 DEC 2017</b>
Non-current assets	33.6	25.3	25.1
Current assets			
Inventories	198.6	131.5	132.9
Current receivables	148.1	66.2	111.2
Cash and cash equivalents	13.0	58.5	68.0
<b>Total assets</b>	<b>393.3</b>	<b>281.5</b>	<b>337.2</b>
Equity	144.7	110.5	150.7
Financial liabilities	59.6	41.9	36.9
Advances received	104.3	72.4	69.3
Other payables	84.6	56.6	80.2
<b>Total equity and liabilities</b>	<b>393.3</b>	<b>281.5</b>	<b>337.2</b>

At the end of the period, net gearing was 32.3% (31 Dec. 2017: -20.6%) and the equity ratio was 50.1% (31 Dec. 2017: 56.3%). The growth in inventories, current receivables and advance payments was due to strong growth in business volumes. Current receivables include trade receivables of EUR 72.3 million and percentage-of-completion receivables of EUR 67.3 million.

The amount of cash reserves decreased to EUR 13.0 million (EUR 68.0 million on 31 December 2017) and the amount of interest-bearing liabilities grew to EUR 59.6 million (EUR 36.9 million on 31 December 2017).

<b>CASH FLOW STATEMENT, EUR MILLION</b>	<b>1-6/2018</b>	<b>1-6/2017</b>	<b>1-12/2017</b>
Cash flow from operating activities	-44.2	-20.9	-2.8
Cash flow from investments	-8.3	2.1	-0.3
Cash flow from financing	-2.4	9.6	3.4
<b>Change in cash and cash equivalents</b>	<b>-54.9</b>	<b>-9.2</b>	<b>0.3</b>
Cash and cash equivalents at the beginning of the period	68.0	67.7	67.7
Cash and cash equivalents at the end of the period	13.0	58.5	68.0

Cash flow from operating activities was EUR -44.2 million negative, largely due to growth in net working capital by EUR 52.5 million during the review period. Inventories grew by EUR 65.7 million and non-interest-bearing receivables grew by EUR 35.5 million. Lehto acquired several land areas and building rights for housing construction needs in the near future. Working capital was also tied to social care and educational premises projects. In these projects, the money is tied up until the completed building is handed over to the customer.

Net cash flow from investments was EUR -8.3 million, including EUR 7.6 million investments in buildings and production equipment relating to factory production.

Cash flow from financing was EUR -2.4 million. During the review period, the Group's interest-bearing liabilities related to cash flow from financing grew by EUR 17.4 million. Loans were drawn mainly for financing projects in the Social Care and Educational Premises service area and for acquiring plots for housing projects. Cash flow from financing also includes a EUR -19.8 million payment of dividends.

## Personnel

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The average number of personnel during the review period was 1,371 (1–6/2017: 900). The number of personnel at period end was 1,531 (1,184 on 31 Dec. 2017). About 52% of the Group's personnel are salaried employees and 48% employees working at construction sites. Most of the increase in the number of employees is related to the expansion of factory operations and the Housing service area operations.

The company has a long-term share-based incentive plan in place. The aim of the plan is to combine the objectives of the shareholders and the key employees in order to increase the value of the company in the long term and to commit key employees to the company. The plan is directed at a maximum of 70 key employees and the rewards are paid after a restriction period of two years, partly in the company's shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the reward.

## 2018 Annual General Meeting

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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 Annual General Meeting authorised the Board to decide on the purchase of a maximum of 5,800,000 of the company's own shares using assets belonging to the unrestricted equity of the company. The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments.

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

## Other events during the reporting period

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On 15 February 2018, Lehto announced that the company's Board of Directors has decided to continue the share-based incentive plans for Group key employees, adopted in 2016. The aim of the plans is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long term and to commit key employees to the company.

On 1 March 2018, Lehto announced that major shareholders had sold a total of 7,100,000 shares in Lehto Group Plc in an accelerated book-building process, representing about 12.2% of total shares and voting rights.

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 Commercial 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.

On 3 May 2018, Lehto announced that it adopted the new IFRS 15 Revenue from Contracts with Customers retroactively from 1 January 2018 in accordance with IAS 8. Lehto estimates that the new IFRS 15 does not have a material impact on the recognition of net sales at Lehto.

On 24 May 2018, Arto Tolonen, PhD (Tech.), Chief Development Officer (CDO), was appointed as a member of Lehto Group's Executive Board.

As of 24 May 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
- Arto Tolonen, Chief Development Officer

## Risks and factors of uncertainty

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Lehto assesses risks in its daily operations on a continual basis and develops Group-wide risk management practices together with its operative companies. Through the continuous development of risk management, we seek to attract new business opportunities and partners, as well as to further improve the profitability and predictability of our operations. Further improvement of risk management and responding to the challenges of a growing business are Lehto's top operational priorities.

The main risks in the operative business include general risks related to project pricing, schedules, quality, technical implementation and the adherence of stakeholders to agreements. Lehto's reliance on module production and the partial dependence of its housing production on the schedule and efficiency of module production present a risk related to deviations or interruptions in the implementation of modular products.

In its business operations, Lehto is also exposed to risks relating to the availability of financing, overall economic trends and political decision-making and other risks relating to the activities of the public sector. As part of its operational business, Lehto continuously concludes agreements with various parties. The related risks include the technical, legal and commercial condition of the acquired property. The unique and complex construction projects in Lehto's Business Premises service area, in particular, always involve risks related to implementation and costs.

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These business models involve different risks. In traditional contracting, project income is recognised according to the degree of completion. The main risk in this model is that total costs for the project exceed the estimated costs or the completion of the project is delayed.

The main risk in own production is that the company is not able to sell the production within the planned time schedule or at the planned price. In addition, project costs can exceed the estimated costs. Failure in project pricing, technical implementation, estimating costs and time schedule, selling the property or finding financing can have a negative impact on the company's result and financial position.

Part of Lehto's business involves agreements according to which Lehto builds premises in line with the customer's needs and only sells the premises upon their completion or at a later stage to a fund, for example. Despite Lehto's completion of premises according to the agreed schedule and costs, Lehto carries a risk related to the capacity of the fund to provide the cash required for the purchase of the premises at the agreed time of payment.

The project business the Group carries out is characterised by variation, which can be significant, in profit between different reporting periods due to the accounting methods of projects. The Group's cash flow is usually generated in step with a project's degree of completion, however such that the last instalment payable after the completion is bigger than the other instalments. Thereby a delay of an individual project can have an effect on the sufficiency of financing. Additionally, the delay in the project may transfer the turnover and the operating profit of the project to the next financial year and thus weaken the net sales and operating profit of the current fiscal year.

As a result of business growth, working capital is tied up in inventories and receivables in particular. In a situation where the company's business is expanding simultaneously in several service areas, large purchase commitments for construction sites are realised and receivable payments from customers are delayed, the company may run into a situation where the additional costs of financing will increase.

Changing building regulations or zoning policies can also have significant effects on the company's business. In a period of economic growth in construction, the availability of skilled labour may also present a risk for the planned launch of a project in the agreed schedule.

Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them. More information on Lehto's risks and risk management is available at [www.lehto.fi](http://www.lehto.fi). There were no significant changes in Lehto's risks in the first half of 2018.

## Flagging notifications

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On 1 March 2018, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from Asko Myllymäki. According to the notification, Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 28 February 2018. In connection with the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell below the 5 per cent threshold to 1.10 per cent.

On 2 March 2018, Lehto received a flagging notification from OP Fund Management Company Ltd. Pursuant to the notification, OP Fund Management Company Ltd's ownership of the shares and voting rights in Lehto exceeded the five (5) per cent threshold to 5.37% on 1 March 2018.

On 7 June 2018, Lehto announced that it had received a flagging notification from OP Fund Management Company Ltd. Pursuant to the notification, OP Fund Management Company Ltd's OP-Suomi Pienyhtiöt investment fund's ownership of the shares and voting rights in Lehto exceeded the five (5) per cent threshold on 31 May 2018. According to the notification, the total holdings of investment funds managed by OP Fund Management Company Ltd amounted to 6.27%.

## Shares and shareholdings

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Lehto is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of June was 58,250,752. The company had 12,848 shareholders and no shares in the company are held by the Group itself. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 29 June 2018 was EUR 9.93. The highest rate of the share during the review period was EUR 14.18 and the lowest rate was EUR 9.60. A total of 22,065,319 shares in the company were traded during the period. The value of the trading was approximately EUR 256 million. The trading includes the 4,971,845 shares sold by the company's significant shareholders on 28 February 2018 using an accelerated book-building process.

Lehto's Annual General Meeting of 11 April 2018 authorised the Board to decide on the purchase of a maximum of 5,800,000 of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company. The authorisation will remain valid until the 2019 Annual General Meeting.

The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, when the company purchases assets linked to its operations, and to implement incentive systems. The authorisation is valid until 31 October 2020 and replaces the company's previous share issue and option authorisations.

## Events after the reporting period

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Lehto updated its operating profit outlook for the year 2018 in a stock exchange release published on 1 August 2018. According to the updated outlook, operating profit is expected to be approximately 8-9% of net sales (2017: 10.8%). The accrual of net sales and operating profit is expected to be strongly weighted towards the end of the year. In the previous guidance, operating profit was forecast to be more than 10% of net sales.

The decrease in the forecast operating profit is due to lower project margins than previously projected, particularly in the Social Care and Educational Premises and Building Renovation service areas, and the postponement until 2019 of the estimated date of completion of some projects that will be recognised as income upon delivery. In addition, greater outlays than expected have been required to expand factory capacity, carry out Group-level development projects, and maintain and develop expertise.

### Vantaa, 8 August 2018

Lehto Group Plc  
Board of Directors

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[www.lehto.fi](http://www.lehto.fi)

Lehto Group in brief:

Lehto is fast growing construction and real estate group. 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. At the end of June 2018, we employed around 1500 people. Our net sales for 2017 amounted to EUR 598 million.

## Tables

The accounting policies applied in this review are mainly the same as in the latest annual report. Lehto has adopted the IFRS 15 Revenue from Contracts with Customers retroactively from 1 January 2018 in accordance with IAS 8, and presents restated comparative data for 2017. Lehto has published a stock exchange release on 3 May 2018 on the adoption of the standard. The standard does not have a material impact on the recognition of net sales. In addition, the company has adopted a new IFRS 9 standard and an IFRS 2 standard amendment. These do not have a material impact on the consolidated financial statements. The IAS 34 requirements have been complied with.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME EUR million

	1-6/2018	1-6/2017	1-12/2017
<b>Net sales</b>	<b>291.9</b>	<b>213.9</b>	<b>597.6</b>
Other operating income	1.9	0.0	1.5
Changes in inventories	65.4	38.3	45.0
Capitalised production	3.7	0.0	0.8
Raw materials and consumables used	-135.8	-101.4	-245.1
External services	-158.3	-97.9	-251.4
Employee benefit expenses	-41.5	-27.8	-61.3
Depreciation and amortisation	-1.4	-1.3	-3.2
Other operating expenses	-12.1	-8.3	-19.3
<b>Operating profit</b>	<b>13.7</b>	<b>15.4</b>	<b>64.6</b>
Financial income	0.1	0.2	0.3
Financial expenses	-0.5	-0.3	-0.7
Share of associated company profits	0.0	0.0	0.0
<b>Profit before taxes</b>	<b>13.3</b>	<b>15.4</b>	<b>64.2</b>
Income taxes	-2.5	-3.3	-12.6
<b>Profit for the period</b>	<b>10.8</b>	<b>12.1</b>	<b>51.6</b>
<b>Profit attributable to</b>			
Equity holders of the parent company	10.8	12.1	51.6
Non-controlling interest	0.0	0.0	0.0
	<b>10.8</b>	<b>12.1</b>	<b>51.6</b>
<b>Earnings per share calculated from the profit attributable to shareholders of the parent company, EUR per share</b>			
Earnings per share, basic	0.19	0.21	0.89
Earnings per share, diluted	0.19	0.21	0.88

**CONSOLIDATED BALANCE SHEET**  
**EUR million**

	June 30, 2018	June 30, 2017	Dec 31, 2017
<b>Assets</b>			
<i>Non-current assets</i>			
Goodwill	4.6	4.6	4.6
Other intangible assets	1.7	2.6	2.1
Property, plant and equipment	17.9	9.2	10.6
Investment properties	0.8	0.8	0.8
Investments and receivables	1.9	2.0	2.0
Deferred tax assets	6.7	6.0	4.9
Non-current assets total	33.6	25.3	25.1
<i>Current assets</i>			
Inventories	198.6	131.5	132.9
Trade and other receivables	148.1	66.2	111.2
Cash and cash equivalents	13.0	58.5	68.0
Current assets total	359.7	256.2	312.1
<b>Assets total</b>	<b>393.3</b>	<b>281.5</b>	<b>337.2</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Share capital	0.1	0.1	0.1
Invested non-restricted equity reserve	69.2	69.2	69.2
Retained earnings	64.4	29.2	29.6
Profit for the financial period	10.8	12.1	51.6
Equity attributable to shareholders of the parent company	144.4	110.5	150.4
Non-controlling interest	0.2	0.0	0.3
Equity total	144.7	110.5	150.7
<i>Non-current liabilities</i>			
Deferred tax liabilities	0.5	0.4	0.4
Provisions	3.7	2.8	4.1
Financial liabilities	19.2	10.4	11.1
Other non-current liabilities	1.2	2.7	2.5
Non-current liabilities total	24.5	16.2	18.1
<i>Current liabilities</i>			
Financial liabilities	40.4	31.5	25.8
Advances received	104.3	72.4	69.3
Trade and other payables	79.3	50.8	73.2
Current liabilities total	224.0	154.8	168.3
Liabilities total	248.6	171.0	186.4
<b>Equity and liabilities total</b>	<b>393.3</b>	<b>281.5</b>	<b>337.2</b>

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE  
 PARENT COMPANY

**CONSOLIDATED STATEMENT OF CHANGES  
 IN EQUITY EUR million**

	Share capital	Invested non-restricted equity reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-control-ing interest	Equity, total
<b>Equity at 1 January 2017</b>	<b>0.1</b>	<b>69.2</b>	<b>41.6</b>	<b>110.8</b>	<b>0.0</b>	<b>110.9</b>
Comprehensive income						
Profit for the financial period			12.1	12.1	0.0	12.1
<b>Total comprehensive income</b>			<b>12.1</b>	<b>12.1</b>	<b>0.0</b>	<b>12.1</b>
<b>Transactions with equity holders</b>						
Distribution of dividends			-12.8	-12.8		-12.8
Share-based compensation			0.4	0.4		0.4
Other changes			0.0	0.0	0.0	0.0
<b>Transactions with equity holders, total</b>		<b>-12.4</b>	<b>-12.4</b>	<b>0.0</b>	<b>-12.4</b>	<b>50,3</b>
<b>Equity at 30 June 2017</b>	<b>0.1</b>	<b>69.2</b>	<b>41.3</b>	<b>110.5</b>	<b>0.0</b>	<b>110.5</b>
<b>Equity at 1 January 2018</b>	<b>0.1</b>	<b>69.2</b>	<b>81.2</b>	<b>150.4</b>	<b>0.3</b>	<b>150.7</b>
Effect of IFRS 2 standard amendment			2.3	2.3		2.3
<b>Adjusted equity at 1 January 2018</b>	<b>0.1</b>	<b>69.2</b>	<b>83.5</b>	<b>152.7</b>	<b>0.3</b>	<b>153.0</b>
<b>Comprehensive income</b>						
Profit for the financial period			10.8	10.8	0.0	10.8
<b>Total comprehensive income</b>			<b>10.8</b>	<b>10.8</b>	<b>0.0</b>	<b>10.8</b>
<b>Transactions with equity holders</b>						
Distribution of dividends			-19.8	-19.8		-19.8
Share-based compensation			0.8	0.8		0.8
Other changes			-0.1	-0.1	0.0	-0.1
<b>Transactions with equity holders, total</b>	<b>-19.1</b>	<b>-19.1</b>	<b>0.0</b>	<b>-19.1</b>	<b>0,0</b>	<b>-19,1</b>
<b>Equity at 30 June 2018</b>	<b>0.1</b>	<b>69.2</b>	<b>75.2</b>	<b>144.4</b>	<b>0.2</b>	<b>144.7</b>

CONSOLIDATED CASH FLOW STATEMENT EUR million	1-6/2018	1-6/2017	1-12/2017
<b>Cash flow from operating activities</b>			
Profit for the financial period	10.8	12.1	51.6
<i>Adjustments:</i>			
Non-cash items	-1.1	0.2	0.7
Depreciation and amortisation	1.4	1.3	3.2
Financial income and expenses	0.5	0.1	0.4
Capital gains	0.0	0.0	0.0
Income taxes	2.5	3.3	12.6
<i>Changes in working capital:</i>			
Change in trade and other receivables	-35.5	2.3	-44.1
Change in inventories	-65.7	-40.6	-42.0
Change in trade and other payables	48.7	5.9	30.6
Interest paid and other financial expenses	-0.4	-0.4	-0.8
Financial income received	0.1	0.2	0.3
Income taxes paid	-5.3	-5.3	-15.3
<b>Net cash from operating activities</b>	<b>-44.2</b>	<b>-20.9</b>	<b>-2.8</b>
<b>Cash flow from investments</b>			
Investment in property, plant and equipment	-8.2	-1.9	-4.1
Investment in other intangible assets	0.0	0.1	-0.4
Acquisition of subsidiaries	0.0	-0.8	-1.1
Proceeds from sale of tangible and intangible assets	0.0	0.0	0.0
Purchases of available-for-sale financial assets and proceeds	0.0	0.0	0.0
Loans granted	-0.2	-0.5	-0.9
Repayments of loan receivables	0.1	5.2	6.2
Dividends received	0.0	0.0	0.0
<b>Net cash from investments</b>	<b>-8.3</b>	<b>2.1</b>	<b>-0.3</b>
<b>Cash flow from financing</b>			
Loans drawn	35.1	35.6	51.7
Loans repaid	-17.7	-12.1	-34.9
Acquisition of non-controlling interest <sup>1)</sup>	0.0	-1.0	-0.9
Dividends paid	-19.8	-12.8	-12.8
Paid share issue	0.0	0.0	0.3
<b>Net cash used in financing activities</b>	<b>-2.4</b>	<b>9.6</b>	<b>3.4</b>
<i>Change in cash and cash equivalents (+/-)</i>	<i>-54.9</i>	<i>-9.2</i>	<i>0.3</i>
Cash and cash equivalents at the beginning of the year	68.0	67.7	67.7
Effects of exchange rate change	-0.1	0.0	0.0
Cash and cash equivalents at the end of the period	13.0	58.5	68.0

<sup>1)</sup> The acquisition of non-controlling interest is due to the additional purchase prices paid to the sellers of non-controlling interest acquired in previous financial periods.

KEY FIGURES	1-6/2018	1-6/2017	1-12/2017
Net sales, EUR million	291.9	213.9	597.6
Net sales, change %	36.4%	52.2%	74.5%
Operating profit, EUR million	13.7	15.4	64.6
Operating profit, as % of net sales	4.7%	7.2%	10.8%
Profit for the period, EUR million	10.8	12.1	51.6
Profit for the period, as % of net sales	3.7%	5.6%	8.6%
Equity ratio, %	50.1%	52.9%	56.3%
Gearing, %	16.5%	14.3%	11.7%
Net gearing ratio, %	32.3%	-15.0%	-20.6%
Return on equity, ROE, %	7.3%	16.8%	56.0%
Return on investment, ROI, %	7.0%	15.5%	54.5%
Order backlog, EUR million	665.0	498.2	538.1
Personnel during the period, average	1,371	900	1,013
Personnel at the end of period	1,531	1,009	1,184
Gross expenditure on assets, EUR million	8.3	1.8	4.5
Equity / share, EUR	2.48	1.90	2.58
Earnings per share, EUR, basic	0.19	0.21	0.89
Earnings per share, EUR, diluted	0.19	0.21	0.88
Average number of shares during the period, basic	58,250,752	58,250,752	58,250,752
Average number of shares during the period, diluted	58,385,914	58,432,315	58,432,315
Number of shares at the end of the period	58,250,752	58,250,752	58,250,752
Market value of share at the end of period, EUR million	578.4	763.1	737.5
Share prices, EUR			
Highest price, EUR	14.18	14.26	14.26
Lowest price, EUR	9.60	9.79	9.79
Average price, EUR	11.60	11.76	12.25
Price at the end of period, EUR	9.93	13.10	12.66

## SEGMENT INFORMATION

The Group has one operating segment, Building Services. The segment's operations consist of providing new construction and renovation services. The Group's management monitors the entire Group, and the segment figures are consistent with the Group figures.

LIABILITIES AND GUARANTEES EUR million	June 30, 2018	June 30, 2017	Dec 31, 2017
<b>Loans covered by pledges on assets</b>			
Loans from financial institutions	45.7	26.4	28.2
Debts on shares in unsold housing and real estate company shares	12.6	5.9	7.3
Instalment debts	1.0	1.3	1.1
<b>Total</b>	<b>59.3</b>	<b>33.5</b>	<b>36.6</b>
<b>Guarantees</b>			
Corporate mortgages	1.8	1.8	1.8
Real-estate mortgages	4.6	4.6	4.6
Pledges	19.8	25.8	12.9
Absolute guarantees	0.4	1.3	0.3
<b>Total</b>	<b>26.6</b>	<b>33.5</b>	<b>19.6</b>
<b>Contract guarantees</b>			
Production guarantees	43.5	20.4	33.8
Warranty guarantees	12.6	10.1	10.4
RS guarantees	32.6	23.3	29.3
Payment guarantees	13.3	11.0	14.2
Rent guarantees			0.0
<b>Total</b>	<b>102.0</b>	<b>64.8</b>	<b>87.7</b>

The collateral for instalment debt is the financed equipment. Absolute guarantees include contract guarantees given on behalf of another Group company and loan guarantees for housing companies under construction. Pledges are inventory items and other financing assets pledged as collateral for financial institution loans and loans for housing companies under construction. Pledges are presented at carrying amount. Furthermore, a right of claim to a lease agreement entered into by the company was given as a collateral for a loan to a subsidiary.

REVENUE ANALYSIS, EUR million	June 30, 2018	June 30, 2017	Dec 31, 2017
Revenue recognised over time	218.6	181.6	459.0
Revenue recognised upon delivery	73.0	32.2	137.8
Rental income	0.2	0.2	0.7
<b>Total</b>	<b>291.9</b>	<b>213.9</b>	<b>597.6</b>

## RELATED PARTIES

The Group's related parties include Group companies, members of the Board of Director and the Group's top management as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures.

### Transactions with related parties

EUR million	SALES 1-6/2018	PURCHASES 1-6/2018	SALES 1-6/2017	PURCHASES 1-6/2017	SALES 1-12/2017	PURCHASES 1-12/2017
Associated companies				0.0		0.0
Key personnel and their controlled entities	17.5	3.1	27.5	1.7	77.5	3.9
<b>Total</b>	<b>17.5</b>	<b>3.1</b>	<b>27.5</b>	<b>1.7</b>	<b>77.5</b>	<b>3.9</b>

EUR million	RECEIVABLES JUNE 30 2018	LIABILITIES JUNE 30 2018	RECEIVABLES JUNE 30 2017	LIABILITIES JUNE 30 2017	RECEIVABLES DEC 31 2017	LIABILITIES DEC 31 2017
Associated companies			0.8			0.0
Key personnel and their controlled entities	2.9	0.1	1.4	0.0	2.2	0.2
<b>Total</b>	<b>2.9</b>	<b>0.1</b>	<b>2.2</b>	<b>0.0</b>	<b>2.2</b>	<b>0.2</b>