

Lehto Group Plc business review,
1 january–30 september 2017

**Net sales up by 58.2%, operating profit
was 9.1% 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–September 2017

GROUP	7–9/2017	7–9/2016	1–9/2017	1–9/2016	1–12/2016
Net sales, EUR million	135.8	91.6	367.3	232.1	361.8
Change in net sales, %	48.3%	13.9%	58.2%	30.7%	31.3%
Operating profit, EUR million	13.5	10.4	33.5	24.3	40.4
Operating profit, % of net sales	10.0%	11.3%	9.1%	10.5%	11.2%
Profit for the period, EUR million	11.2	8.3	26.9	19.3	31.9
Order backlog at period end, EUR million	502.6	258.5	502.6	258.5	309.1
Earnings per share, EUR	0.19	0.16	0.46	0.37	0.59
Cash and cash equivalents, EUR million	46.9	66.6	46.9	66.6	67.7
Interest-bearing liabilities, EUR million	51.8	22.3	51.8	22.3	16.6
Equity ratio, %	53.5%	61.5%	53.5%	61.5%	60.4%
Net gearing ratio, %	3.7%	-43.0%	3.7%	-43.0%	-44.2%

Compared to the corresponding period of the previous year, Lehto Group's net sales for January–September grew by 58.2%, to EUR 367.3 (232.1) million. Operating profit was EUR 33.5 (24.3) million, or 9.1% (10.5%) of net sales. Net sales grew in all service areas.

NET SALES BY SERVICE

AREA	1–9/2017	1–9/2016	CHANGE, %	1–12/2016
Business Premises	108.0	86.4	25.1%	129.5
Housing	131.8	84.8	55.3%	136.0
Social Care and Educational Premises	77.6	40.3	92.7%	62.1
Building Renovation	49.9	20.6	142.0%	34.2
Total	367.3	232.1	58.2%	361.8

BUSINESS PREMISES

Net sales in the Business Premises service area grew by 25.1%. A total of 23 business premises were completed across Finland during the reporting period. At the end of the period, a total of 19 business premises were under construction.

In August, Lehto signed a contract with global logistics company DSV on the construction of a logistics centre in Vantaa. The construction project comprises a logistics building of approximately 50,000 m², a terminal building of 10,000 m² and an office building of 4,000 m². The planning for the centre is underway, and actual construction will begin once the building permit is approved. The estimated completion of the property is at the end of 2018.

In September, Lehto Group signed a contract with Danish logistics company Frode Laursen for the construction of a new logistics centre in Kerava. The centre will have an area of approx. 27,000 m² and its estimated time of completion is August 2018.

Lehto continued the development project of the Lippulaiva shopping centre, in Espoonlahti, together with Citycon Oyj and designers. After the end of the review period, on 19 October 2017, Lehto and Citycon signed a new main contract to complete the development phase.

HOUSING

Net sales in the Housing service area grew by 55.3% from the comparison period to EUR 131.8 (84.8) million. A total of 1,321 apartments were sold in January–September. At the end of the period, 1,855 new apartments were under construction, of which 384 had not yet been sold. There were 11 completed, unsold apartments. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other growth centres.

The largest housing developments underway are located in Kaivoksela, Helsinki, where we are building a total of approximately 550 apartments and Kilo, Espoo, where we are building around 370 apartments.

SOCIAL CARE AND EDUCATIONAL PREMISES

Growth was extremely strong in the Social Care and Educational Premises service area, with a 92.7% year-on-year increase in net sales to EUR 77.6 (40.3) million. A total of 22 new nursing homes for senior citizens, one school and two day care centres were completed in the reporting period. At the end of the period, 22 nursing homes and one school were under construction. 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. In July, Lehto won a tender for building a school for 450 pupils in the municipality of Liminka. The school will have an adjoining preschool for 40 pupils.

BUILDING RENOVATION

Net sales in Building Renovation grew by 142.0% from the comparison period to EUR 49.9 (20.6) 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 three developer contracting projects ongoing in the Building Renovation service area. Two of 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 period to increase its factory capacity. In Oulainen, operations were expanded to three new facilities and, in May, Lehto acquired the production facilities and equipment of the bankrupted Iin Fasadi Oy.

Capacity will further 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 502.6 million (EUR 309.1 million on 31 December 2016). The 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 economic outlook has remained the same. Lehto estimates that the Group's net sales for 2017 will grow by 40–50% from the previous year (EUR 361.8 million in 2016) and operating profit is expected to be above 10% of net sales (2016: 11.2%). Most of the operating profit will be accrued in the second half 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 2017.

The most significant risks related to 2017 net sales and operating profit are the availability of skilled labour, the adequacy of factory capacity and delays in the launch of projects currently at the negotiation phase. Failure to obtain labour and increase factory capacity may delay the progress of projects and the accrual of net sales and operating profit.

Balance sheet and financing

CONSOLIDATED BALANCE SHEET, EUR MILLION	30 Sep 2017	30 Sep 2016	31 Dec 2016
Non-current assets	24.0	17.9	21.5
Current assets			
Inventories	118.4	72.1	77.5
Current receivables	133.4	84.4	92.0
Cash and cash equivalents	46.9	66.6	67.7
Total assets	322.8	241.0	258.7
Equity	130.3	102.9	115.6
Financial liabilities	51.8	22.3	16.6
Prepayment received	79.3	73.7	67.3
Other payables	61.3	42.1	59.2
Total equity and liabilities	322.8	241.0	258.7

At the end of the period, the Group's equity ratio was 53.5% (31 Dec. 2016: 60.4%) and net gearing was 3.7% (31 Dec. 2016: -44.2%). The decrease in cash reserves and growth in financial liabilities was primarily due to the growth in working capital, which has been financed using the company's own cash reserves and bank loans. Loans were drawn mainly for acquiring plots and financing projects during construction in the Housing service area and for financing projects during construction in the Social Care and Educational Premises service area. The financing need in Social Care and Educational Premises is related to a framework agreement under which Lehto will build several social care sector premises using its own financing and sell them to care sector property funds as portfolios consisting of several properties.

Personnel

The average number of personnel during the review period was 961. The number of personnel at period end was 1,105 (31 Dec 2016: 747). About 51% of the Group's personnel are salaried employees and 49% employees working at construction sites.

Other significant events during the third quarter

In August, Lehto Group Plc established a new subsidiary in Sweden with the name Lehto Sverige AB. Lehto Group Plc holds 88% and four Swedish minority shareholders hold a total of 12% of the company's shares.

Through the new subsidiary, Lehto will offer economically driven construction of housing, business premises and social care and educational premises all over Sweden, and initially in the Stockholm region in particular. At the start, the company will have seven employees.

Lehto Sverige AB will start its first housing construction project in Märsta, north of Stockholm, in the beginning of 2018. The project, which is waiting for zoning plan approval, comprises around 70 apartments, and construction is planned to take place during 2018–2019.

Significant events after the reporting period

Rakennusliike Lehto Oy ("Lehto") and Citycon Oyj ("Citycon") signed a letter of intent in March 2016 on the planning and construction of the Lippulaiva shopping centre and adjacent residential buildings in Espoo. Together with external designers, the parties have planned the project and sought solutions to meet the operational and financial targets of both parties.

On 19 October 2017, Lehto and Citycon signed a new main contract to complete the development phase. According to the main contract, Lehto and Citycon will continue to develop and plan the project with the aim of signing a final contract agreement for the shopping centre and a housing contract for the construction of the residential units by 31 March 2018. These final contracts are contingent on the parties reaching unanimity on the technical content of the project and the construction schedules; in addition, the Espoo Cityscape Committee must issue a preliminary statement in favour of the residential buildings planned to be built adjacent to Lippulaiva shopping centre.

The main contract now drafted will not automatically lead to a contract agreement and has no impact on Lehto's financial outlook for 2017.

Kempele, 8 November 2017

Lehto Group Plc
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LEHTO GROUP IN BRIEF

Lehto is the fastest 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. We employ around 1,100 people and our net sales for 2016 amounted to EUR 362 million.