

Lehto Group Plc's financial statement bulletin 1 January–31 December 2016

Net sales grew by 31% and profitability improved from the previous year



This report has been prepared in accordance with the IAS 34 standard and is unaudited.
 Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.

Summary 2016

LEHTO GROUP	10-12/2016	10-12/2015	1-12/2016	1-12/2015
Net sales, EUR million	129.7	98.1	361.8	275.6
Change in net sales, %	32.3%	78.3%	31.3%	61.1%
Operating profit, EUR million	16.0	10.5	40.4	27.2
Operating profit, % of net sales	12.3%	10.7%	11.2%	9.9%
Profit for the period, EUR million	12.6	8.5	31.9	21.2
Order backlog at period end, EUR million	309.1	195.0	309.1	195.0
Earnings per share, EUR *)	0.22	0.23	0.59	0.52
Cash and cash equivalents, EUR million	67.7	24.6	67.7	24.6
Interest-bearing liabilities, EUR million	16.4	17.0	16.4	17.0
Equity ratio, %	60.4%	37.2%	60.4%	37.2%
Net gearing ratio, %	-44.2 %	-22.9%	-44.2 %	-22.9%

*) Adjusted average number of shares during the period as denominator

The Group's net sales for January–December grew by 31.3% to EUR 361.8 (275.6) 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 40.4 (27.2) million, or 11.2% (9.9%) of net sales.

NET SALES BY SERVICE AREA, EUR MILLION

	2013	2014	2015	2016
Business Premises	64.3	95.3	109.8	129.5
Housing	20.1	28.5	69.5	136.0
Social Care and Educational Premises	3.3	17.7	38.4	62.1
Building Renovation	25.8	29.6	58.0	34.2
Total	113.4	171.1	275.6	361.8

The order book at year end was EUR 309.1 million (EUR 195.0 million at 31 December 2015), most of which is expected to be recognised during 2017.

July–December 2016

Net sales in the second half of the year were EUR 221.3 (178.4) million. Net sales in all service areas were higher in the second half of the year than in the first half. This is due to the spike in the completion of developer contracting housing projects at the end of the year, as well as the growth in the number of business premises and social care and education premises in the latter half of the year.

The net sales of the last quarter were the highest according to the last year. Net sales grew by 32.2% to EUR 129.7 million (EUR 98.1 million in 4Q 2015).

NET SALES AND OPERATING PROFIT BY QUARTER, EUR MILLION

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	H1 2016	H2 2016	TOTAL
Net sales							
Business Premises	20.5	28.5	37.4	43.1	49.0	80.5	129.5
Housing	28.3	24.9	31.6	51.1	53.2	82.8	136.0
Social Care and Educational Premises	7.1	17.2	15.9	21.9	24.4	37.8	62.1
Building Renovation	6.3	7.6	6.7	13.6	14.0	20.2	34.2
Net sales total	62.3	78.3	91.6	129.7	140.5	221.3	361.8
Operating profit	4.0	10.0	10.4	16.0	14.0	26.4	40.4
Operating profit, % of net sales	6.5%	12.7%	11.3%	12.3%	9.9%	11.9%	11.2%

CEO Hannu Lehto:



“Business continued its positive development in 2016. Net sales grew somewhat more than we anticipated at the start of the year. Even in growth, we were able to improve our relative profitability with an operating profit of EUR 40.4 (27.2) million, or 11.2% (9.9 %) of net sales. Healthy project margins in the Housing Premises, Business Premises and Social Care and Educational Premises service areas contributed to the good operating profit.

A major step for the company was listing on Nasdaq Helsinki last spring. This has had wide-ranging effects on the company’s operations. The company obtained capital to finance its growth, the awareness of the company and its credibility among different stakeholders improved, and many new requirements were imposed on its corporate governance. I feel that we are now far better equipped to continue developing our business.

During the year, we made several long-term investments and development actions, such as the construction of our own element and module production plant in Oulainen and the acquisition of building renovation company Rakennus Oy Wareco. We also continued the development of our own modules and construction concepts. We believe that these investments will contribute to Lehto’s competitiveness and enable continuing profitable growth also in the future.

The growth of the construction sector in Finland in 2016 was clearly higher than in the previous years, which was demonstrated by the challenges in obtaining skilled labour and, in some cases, materials. However, this has not significantly affected the company’s growth or profitability.

The growth of the sector is expected to slow down in 2017, but we believe that our own business will continue to grow and develop faster than the sector in general. Our key operational goal is to continue the development of modular solutions and concepts, sharpen our competitiveness and maintain our good profitability.”

Outlook for 2017

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.

Long-term financial targets

Lehto Group Plc's Board of Directors has modified on 16 February 2017 the long-term financial targets concerning net sales. The growth target of net sales is slightly higher than the one that Lehto has published earlier.

Modified long-term financial targets:

- Annual growth of net sales 10–20% on average
- Operating profit 10% of net sales on average
- Equity ratio minimum 35%
- Dividend distribution 30–50% of the net profit for the year

Invitation to press conference

Lehto Group will hold a press conference on the financial statement for 2016 for the media, analysts and institutional investors on **Friday, 17 February 2017 at 9:00 a.m.** (EET) at the company's premises in Vantaa at Äyritie 12 B. The press conference can also be followed as a live webcast at www.lehto.fi/en/investors. The live webcast begins at 9:00 a.m. Finnish time (EET).

It is also possible to participate in the press conference via a conference call on 17 February 2017 at 9:00 a.m. Finnish time (EET). Conference call participants are requested to dial in at least five minutes prior to the start of the conference to one of the numbers below. The password is: Lehto.

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+358 (0) 9 2319 5437 (Finland)

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Annual General Meeting 2017

The Annual General Meeting 2017 of Lehto Group Plc will take place 11 April 2017 at 1.00 p.m EET (address: Yrttipellontie 1, Oulu, Finland). The Board of Directors will publish the invitation for Annual General Meeting on 1 March 2017.

Business environment and business development in 2016

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

Lehto's business environment developed favourably during 2016. Finland's gross national product was estimated to have grown by approximately 1.7% (OP Financial Group's economic barometer), investments by 3% and consumption by approximately 1.5%. Inflation remained moderate during 2016, while the building cost index rose by approximately 1.0%.

According to Statistics Finland, there were approximately 6% more construction starts in the first eleven months of the year than in 2015. Growth has been driven by housing production boosted by low loan interest rates. According to the latest economic outlook published by the Confederation of Finnish Construction Industries RT, there were as many as 36,000 housing starts in 2016. Thanks to investor demand, housing construction was particularly active in the Helsinki region and other major growth centres. A slight increase in consumer demand compensated for the beginning saturation of the investor market.

Starts of business and office premises construction were delayed in the latter half of the year, and the volume was heavily focused on construction in a few major city centres. Stronger growth in new construction was restrained by the continuing high number of vacant office premises and the slow decision-making related to changing the purpose of use of older premises unsuitable for modern offices.

Starts of industrial and warehouse buildings appear to remain at the level of 2015 at most. The volumes of this segment were sustained by the modernisation of existing logistics facilities into automated facilities. Starts of public service buildings increased by almost one fifth in 2016, which is primarily attributable to the active end of the year, concentrating on the construction of educational and hospital buildings. The Finnish social welfare and health care reform will have a considerable impact on municipal finances and the implementation of new projects. The growth in renovation building slowed down in 2016, although the need for renovations has not decreased.

Growth in construction is particularly reflected in the availability of labour. This is an exceptional situation, as construction is a trailing indicator of the economy and has improved employment in Finland during the last year. In June, Lehto successfully organised a comprehensive recruitment campaign to secure personnel suitable for its operating model. The public visibility brought about by the listing has helped in the recruitment of new salaried employees and construction employees.

FACTORY PRODUCTION

Lehto built a building component factory of approximately 9,000 m² in Oulainen during the financial year. The factory manufactures bathroom-kitchen modules, apartment elements, wall elements, windows and some smaller renovation building modules for Lehto's own use. In addition to the new factory, Lehto also has a smaller factory unit in Oulainen, a production facility for large roof elements in Humppila and a unit that manufactures HVAC control rooms in Oulu. The purpose of developing modules is to enhance building quality and to accelerate the construction process.

BUSINESS PREMISES

In the Business Premises service area, Lehto builds office premises, retail premises, logistics, warehouse and production facilities, sports and hobby facilities and also large shopping 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. Lehto builds business premises across Finland for local, national and international customers.

Most of the service area's business is in the form of contracting. However, Lehto implements some business premises as developer contracting, which means that construction begins when a binding lease agreement has been signed but the buyer is not yet certain. The company has defined internal euro limits for the number of developer contracting business premises projects in order to keep the overall risks related to such projects at a moderate level.

Net sales in the Business Premises service area grew by 17.9% to EUR 129.5 (109.8) million in 2016. A total of 33 projects were completed during the period, including the Prisma supermarket in Seppälä, Jyväskylä, the Muurame commercial centre, an XXL sports store in Oulu, and the Leo's Leikkimaa adventure park in Tampere. At the end of the financial year, 20 properties were under construction.

In May, Lehto began construction of the Zemppi sports centre and an adjoining hotel in Kempele. The size of the sports centre is approximately 8,100 m², while the hotel will accommodate 54 rooms. Lehto owns a third of the shares of Kiinteistö Oy Zemppi. In June, Lehto began construction of the Leo's Leikkimaa indoor sports park in the same block as Zemppi.

In June, Lehto also signed a turn-key contract on the construction of an office and commercial complex with a floor area of 11,900 m² in Tikkurila, Vantaa. The value of the contract is EUR 26,8 million. The customer is Sponda Plc.

Based on the preliminary agreement signed in March, Lehto continued the development project of the Lippulaiva shopping centre in Espoonlahti, together with Citycon Oyj and designers. The final agreement on the Lippulaiva contract has not yet been signed, but Lehto has signed a contract for the construction of Pikkulaiva, the temporary property to house the shopping centre. The construction of Pikkulaiva is already underway. The Lippulaiva project implementation involves uncertainties which are typical of property development.

Lehto has made certain preparations regarding the Barents Center under planning in Haparanda, Sweden. Lehto has a contract with the Swedish client, according to which Lehto will be the contractor of the project, if it is started. Lehto does not have accurate information on the schedule, extent or funding status of this potential project.

The order book of the Business Premises service area grew during the review period and was EUR 75.5 million at year end (EUR 57.5 million on 31 December 2015).

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, who can be private persons or private or institutional investors.

Most of the houses are blocks of flats. The kitchen/bathroom modules developed by Lehto will be used in their construction. The modules are 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 through large volumes. The factory also manufactures wooden wall elements and space elements that can be used to rapidly build terraced houses and balcony access houses particularly well suited for urban environments.

Net sales in the Housing service area grew strongly. Net sales were EUR 136.0 (69.5) million, 95.6% higher than in 2015. The major part of the growth was generated by developer contracted blocks of flats built in growth centres in the Helsinki metropolitan area and elsewhere in Finland, but growth was also seen in the construction of terraced house developments. 23 new construction premises were completed during 2016 (13 in 2015), totalling 853 (469) apartments. The Group had 21 developer contracting housing companies under construction, totalling 747 apartments. Completed properties had seven unsold apartments.

The number of unsold apartments under construction has remained very moderate and the percentage of sale is actively monitored to minimise balance sheet risk. The growth in own housing production is reflected in the growth in inventories, as net sales are only recognised upon delivery.

In June, Lehto bought the business operations of Dometalot Oy, comprising energy-efficient construction solutions. The sale of the business included the transfer of customary business contracts, immaterial rights and 13 employees to Lehto. The net sales of the acquired business were approximately EUR 1.5 million in 2015.

In August, Lehto signed a contract with the Joint Stock Company "Concern Titan-2" branch office in Finland to construct accommodation premises for about 1,000 employees at Pyhäjoki's nuclear power plant construction site. The project will be delivered as a turn-key project in which Lehto is responsible for planning and construction in stages, according to a defined time and payment schedule agreed upon with the customer. Lehto will use its own developed modular building concept in the project. Apartment modules will be prefabricated in Lehto's own factory and assembled at the construction site. The total gross floor area of the project is about 17,000 m² and the first occupants are expected to arrive in spring 2017. It is estimated that the entire project will be completed in January 2019. The total value of the construction contract is around EUR 25.3 million, excluding value-added tax.

The housing construction order book at year end was approx. EUR 132.8 million (EUR 103.9 million on 31 December 2015). The housing production order book includes the proportion of started developer contracting projects that has not been recognised as net sales. A construction project is included in the order book once the decision to start construction has been made and the contract for a developer contracting project has been signed.

SOCIAL CARE AND EDUCATIONAL PREMISES

In the Social Care and Educational Premises business area, Lehto plans and builds nursing homes, day care centres and schools to meet the needs of nationwide care service providers and municipalities. In most cases, Lehto makes a lease agreement with a service operator and sells the finished property to a fund that invests in properties in the sector. In some cases, the properties are implemented as traditional construction contracts.

Companies that provide care services for the elderly people continue to grow and expand their operations. The sector's building stock is aging, especially in the public sector, and is being replaced with new construction.

This has created new demand for nursing homes, but at the same time, competition has increased in the nursing home construction market. A similar development can be seen in the day care centre business, where nationwide companies that provide day care services are growing and expanding. This will increase the demand for day care centre buildings.

In 2016, net sales for Lehto's social care and educational premises grew faster than the market in general. Net sales grew by 61.8% to EUR 62.1 million. Net sales grew for both new and existing accounts, with nursing homes for the elderly accounting for most of the net sales. A total of 21 nursing homes were completed during the period, and 22 projects were under construction at the end of the year. Lehto started building one new school and two new day care centres. Lehto will continue to invest in the construction of schools and day-care centres.

In December, Lehto and a care sector property fund managed by Northern Horizon ("NHC") signed a framework agreement for the construction and sale of care sector premises. The total value of the framework agreement is approximately EUR 57 million. Lehto will build the premises and sell them to the fund after completion and when other agreed requirements are met. Some of the premises are already under construction. Most of the properties will be completed during 2017, while some will be completed during the first quarter of 2018.

The order book at year end was EUR 57.2 million (EUR 15.2 million on 31 December 2015).

BUILDING RENOVATION

Lehto's Building Renovation service area involves the performance of plumbing 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.

Net sales in Building Renovation declined during the review period by 41.0% to EUR 34.2 (58.0) million. Despite the growth of net sales from plumbing renovations, net sales in the service area as a whole declined, as, contrary to 2015, no developer contracting-based renovation projects were completed during the review period. In these projects, net sales from the sale of shares are not recognised as income until the project is completed.

In October, Lehto acquired the entire share capital of Rakennus Oy Wareco ("Wareco"), which operates in the Helsinki metropolitan area. Wareco's areas of expertise include real estate renovations, plumbing renovations in housing companies, renovation and modification projects for facades, as well as accessory and complementary building. Wareco's key personnel have several decades of experience in building renovation. At the time of the acquisition, Wareco employed almost 70 people. In 2015, its net sales totalled EUR 28.7 million. The acquisition supports Lehto's growth targets, enabling it to strengthen and expand its building renovation business. The acquisition also brought additional talented resources to the company in areas such as large renovation projects and plumbing renovations.

At the end of the period, Lehto had 21 renovation projects ongoing. These include developer contracting housing projects in the centre of Helsinki, in Myllypuro, Helsinki and in Oulu, as well as several other repair and plumbing renovation projects in the Helsinki metropolitan area.

The order book of Building Renovation grew to EUR 43.5 million at year end (EUR 18.4 million on 31 December 2015).

Significant events during the financial period

During the first quarter of 2016, all Group units started using the name Lehto. The name of the parent company had been changed from the former name Päätoimija Oyj to Lehto Group Plc in December 2015. The rapidly expanded group wanted to aggregate its business under the Lehto brand in order to promote its wide range of services in a unified manner and increase brand awareness.

In March Lehto Group Plc and Citycon Finland Oy signed a preliminary agreement on a development project for the Lippulaiva shopping centre in Espoonlahti. According to the preliminary agreement, the development project will be prepared in close cooperation between Citycon, Lehto and the project designers. The goal was to sign the final agreement for the contract in 2016, but it had not yet been signed at the end of the review period. Around 550 apartments, a connection to the metro, a bus terminal and 1,400 parking spaces are also planned to be built next to Lippulaiva. The total gross area for the project is approximately 170,000 brm². Lehto plans to build the shopping centre, bus terminal, metro connection and parking slots as a turn key project and the housing project as a developer contracting project. The estimated time of construction is 2017–2020. The project involves uncertainties that are typical of property development.

Lehto Group Plc carried out its Initial Public Offering (“IPO”) **in April 2016**. Trading in the company’s shares on the pre-list of the Nasdaq Helsinki Ltd commenced on 28 April 2016. As part of the issue for institutional investors, private persons and the company’s employees, the company issued 11,874,705 new shares. In addition, a convertible capital loan granted by Osuuskunta PPO was converted into shares by issuing 1,065,643 new Lehto Group Plc’s shares. The number of shares increased to 58,250,752 after the IPO issue of shares and the conversion. The company’s existing shareholders sold 3,199,608 shares in connection with the IPO issue of shares.

The funds received during the IPO totalled approximately EUR 60.5 million. The total fees and expenses for the IPO were approximately EUR 2.6 million.

The main events and announcements related to the listing:

- **On 29 March 2016**, the company announced its plan on an Initial Public Offering and listing on the official list of Nasdaq Helsinki.
- The Annual General Meeting held on **30 March 2016** authorised the Board of Directors to carry out the actions required for listing on the stock exchange.
- **On 12 April 2016**, the company announced the preliminary price range for the planned Initial Public Offering, the number of shares offered for subscription and other key terms of the offering.
- **On 14 April 2016**, the company announced that it had submitted the listing application to the Helsinki Stock Exchange.
- **On 22 April 2016**, the company announced that the initial Public Offering had been oversubscribed and the subscription period had been discontinued.
- **On 27 April 2016**, the company announced that its Initial Public Offering had been completed and the final subscription price for the public offering and institutional offering was EUR 5.10 per share.
- **On 28 April 2016**, trading in the company’s shares commenced on the pre-list of Nasdaq Helsinki Ltd.

- **On 3 May 2016**, the company announced its ten largest shareholders after the end of the initial public offering.
- **On 18 May 2016**, the company announced that the over-allotment option related to the initial public offering had been fully exercised.

In May, the company announced that it would build a Prisma centre of approximately 11,350 m² in Nokia.

In June, Optimikodit Oy, a Lehto Group company, acquired the business operations of Dometalot Oy, comprising energy-efficient construction solutions. The sale of the business included the transfer of customary business contracts, immaterial rights and 13 employees to Lehto. Dometalot Oy's personnel continued at Lehto under their existing terms and conditions of employment. The net sales of the acquired business were approximately EUR 1.5 million in 2015.

In June, Lehto announced that it will build a new office and commercial complex in the vicinity of the Tikkurila railway station in Vantaa. The customer is Sponda Plc, for whom Lehto has also previously built properties as turn-key projects. Sponda plans to implement the project in two phases. The value of Lehto's construction contract for the first phase is approximately EUR 26.8 million. Sponda will decide on the start of the second phase on the basis of the lease status.

In August, Lehto Group Plc's subsidiary Rakennuskartio Ltd signed a contract with the Joint Stock Company "Concern Titan-2" branch office in Finland to construct accommodation premises for about 1,000 employees at Pyhäjoki's nuclear power plant construction site. The project will be delivered as a turn-key project in which Lehto is responsible for planning and construction in stages, according to a defined time and payment schedule agreed upon with the customer. Lehto will use its own developed modular building concept in the project. Apartment modules will be prefabricated in Lehto's own factory and assembled at the construction site. The total gross floor area of the project is about 17,000 m² and the first occupants are expected to arrive in April 2017. It is estimated that the entire project will be completed in January 2019. The total value of the construction contract is around EUR 25.3 million, excluding value-added tax.

Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco by an agreement signed **in October**. Wareco is a building renovation company operating in the Helsinki metropolitan area. Its areas of expertise include real estate renovations, plumbing renovations in housing companies, renovation and modification projects for facades, as well as accessory and complementary building. Wareco's key personnel have several decades of experience in building renovation. At the time of the acquisition, Wareco employed almost 70 people. In 2015, its net sales totalled EUR 28.7 million and its operating profit was EUR 0.7 million. The acquisition supports Lehto's growth targets, enabling it to strengthen and expand its building renovation business. The acquisition also brought additional talented resources to the company in areas such as large renovation projects and plumbing renovations.

In December, Lehto Group Plc's subsidiary Rakennusliike Lehto Oy ("Lehto") and care sector property fund managed by Northern Horizon ("NHC") signed a framework agreement for the construction of care sector premises. The total value of the framework agreement is approximately EUR 57 million, and it covers 16 social care and educational premises across Finland. The agreement also includes an option for the construction of additional properties. The construction and sale of social care and educational premises to the fund is part of Lehto's normal business, but under the signed framework agreement, a larger number of properties will be built and sold to a single fund at one time. Lehto will build the premises and sell them to the fund after completion and when other agreed requirements are met.

Some of the premises are already under construction. Most of the properties will be completed during 2017, while some will be completed during the first quarter of 2018. The financing for the construction will be arranged by Lehto using both equity and borrowed capital. The premises in the scope of the agreement will be built for elderly care, child care and for other groups with special needs. The users of the premises will be both communal sector operators and nationwide service providers.

In December, Lehto Group Plc's Board of Directors decided on the launch of two new share-based incentive plans for Group key employees. The aim of the plans 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, to commit the key employees to the company, and to offer them competitive reward plans based on earning the company's shares.

The long-term incentive plan is directed at a maximum of 70 key employees, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2016 and 2017 correspond to the value of an approximate maximum total of 1,000,000 Lehto Group Plc shares, including the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into shares.

The Board of Directors also decided on the Group's new restricted share plan. The reward from the restricted share plan is based on the key employee's valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period of one to three 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 to the key employee.

The restricted share plan is directed at selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including the proportion to be paid in cash.

Balance sheet and financing

The Group's financial position strengthened during the financial year, mainly due to its successful listing on the stock exchange. The funds received during the Initial Public Offering totalled approximately EUR 60.5 million. The total fees and expenses for the Initial Public Offering were approximately EUR 2.6 million. The difference between the IPO funds and expenses, EUR 57.8 million, was posted in the invested non-restricted equity reserve. The IPO expenses did not burden the profit for the period.

GROUP BALANCE SHEET, EUR MILLION	31 DEC 2016	31 DEC 2015
Non-current assets	21.5	14.6
Current assets		
Inventories	77.5	51.3
Current receivables	92.0	47.2
Cash and cash equivalents	67.7	24.6
Total assets	258.7	137.6
Equity	115.6	33.4
Financial liabilities	16.4	17.0
Advances received	67.3	47.9
Other payables	59.5	39.3
Total equity and liabilities	258.7	137.6

Non-current assets grew by EUR 7.0 million primarily due to the investment in the Oulainen factory and the acquisition. Inventories grew in line with sales growth and mostly comprise developer contracting housing projects under construction. A minor part of the inventories is related to the stocks of raw materials and unfinished production at Lehto's factories.

Current receivables include EUR trade receivables of 40.2 (19.2) million and percentage-of-completion receivables of EUR 41.7 (25.3) million. Their growth is attributable to the growth in business volume and the concentration of sales invoicing at the end of the year.

Equity grew by EUR 82.2 million to EUR 115.6 million, while financial liabilities decreased slightly to EUR 16.4 million. The company has increasingly financed projects using its own cash reserves, and borrowed capital has not been used in all projects. Interest-bearing liabilities include normal bank loans, instalment debts and loans drawn by developer contracting housing companies to the extent these are allocated to unsold apartments.

Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales.

CASH FLOW STATEMENT, EUR MILLION
1–12/2016
1–12/2015

	1–12/2016	1–12/2015
Cash flow from operating activities	8.3	21.3
Cash flow from investments	-14.1	-5.1
Cash flow from financing	48.9	2.5
Change in cash and cash equivalents	43.1	18.7

Cash and cash equivalents grew by EUR 43.1 million during the financial year. Net cash from operating activities was EUR 8.3 million positive, which includes a negative impact of EUR 27.8 million due to the growth in working capital. The increase in net working capital was particularly attributable to the growth in sales invoicing towards the end of the year and the relatively large number of buildings under construction at the end of the financial period.

Net cash from investments was EUR 14.1 million, of which approximately EUR 7.3 is related to the construction of the Oulainen production plant and EUR 4.2 million is related to the acquisition of the share capital of Rakennus Oy Wareco. In addition, the company paid additional purchase prices of EUR 0.2 million related to previous subsidiary acquisitions. Cash flow from investments also includes loans amounting to EUR 2.3 million granted to developer contracting construction projects.

Net cash used in financing activities was EUR 48.9 million, including net proceeds of EUR 57.8 million received from the Initial Public Offering and EUR 7.9 million paid in dividends. There was no significant change in the amount of interest-bearing liabilities during the financial year.

At the end of the financial period the Group had credit limits of EUR 5.0 million available with Danske Bank. The credit limits are in force until further notice and no credit limits were in use at the end of the financial period.

Risks and uncertainties

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, Lehto seeks to attract new business opportunities and partners well as to further improve the profitability and predictability of Lehto's 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 two 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.

A part of Lehto's business involves agreements according to which Lehto builds premises according to 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 potentially be significant, of 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 working capital.

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. There were no significant changes in Lehto's risks in the last quarter of 2016.

Personnel

The average number of personnel during the review period was 566 (402). The number of personnel at year end was 747 (423). About 52% (53%) of the Group's personnel are salaried employees and 48% (47%) employees working at construction sites. The relative proportion of salaried employees and employees working at construction sites remained approximately the same as the personnel numbers increased.

In June, Lehto launched a comprehensive recruitment campaign to secure its labour supply. During the second half, Lehto recruited over 100 new employees, most of them related to the ramp-up of the new module factory in Oulainen. The personnel number was further increased in October by the acquisition of Rakennus Oy Wareco, which brought Lehto Group almost 70 new employees.

Growth in construction is particularly reflected in the availability of labour. Within personnel management, resources are strongly focused on growth, continuous improvement of competitiveness, and well-being and safety at work.

Research and development

Lehto develops and manufactures building modules and elements, such as bathroom/kitchen modules, housing space elements, wall elements, large roof elements, HVAC control rooms, windows and some smaller building renovation modules at its own production facilities. The purpose of developing modules is to enhance building quality and to accelerate the construction process.

The development of modules, concepts and space solutions is part of continuing operations, and the related costs are recorded as an expense in the income statement. The major development efforts during the financial year focused on the design of new building model ranges and the ramp-up of the new factory in Oulainen, which also involved some changes to product manufacturing methods.

Significant events after the reporting period

Lehto Group Plc's subsidiary Rakennuskartio Ltd ("Lehto") has acquired tenure rights to land areas in Kilo in Espoo and Kaivoksela in Vantaa. The local plans that enable housing construction in the areas were confirmed at the turn of January–February 2017. The sites have building rights for a total of 57,000 m² of gross floor area. The purchase price for the land areas totalled approximately EUR 31.9 million, which will be paid in stages as construction progresses.

Lehto plans to build 12 blocks of flats and a nursing home for the elderly at the Kilo site and 9 blocks of flats at the Kaivoksela site. In total, 21 blocks of flats will be built on the sites, amounting to some 850 apartments. Construction will begin in spring 2017, and it is estimated that the buildings will be completed between 2018 and 2020.

No other events have occurred after the end of the reporting period that would have a significant or exceptional effect on the company's result, financial position or business development.

Board proposal for the use of the profit shown on the balance sheet and for deciding on payment of dividends

The parent company's distributable funds on the balance sheet of 31 December 2016 are EUR 87,554,323.46, of which the operating profit is EUR 4,525,917.86.

The Board of Directors proposes to the Annual General Meeting on 11 April 2017 that the dividend payable for the financial year 1 January–31 December 2016 be EUR 0.22 per share, totalling EUR 12,815,165.44. The dividend shall be paid to shareholders who on the record date for the dividend payment, 13 April 2017, are recorded in the shareholders' register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend payment date be 24 April 2017.

Kempele, 16 February 2017

Lehto Group Plc
Board of Directors

Further information:

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Tables

The accounting policies applied in this review are the same as in the latest annual report.

The IAS 34 requirements have been complied with.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR MILLION

	7-12/2016	7-12/2015	1-12/2016	1-12/2015
Net sales	221.3	178.4	361.8	275.6
Other operating income	0.2	0.3	0.4	1.0
Changes in inventories	17.3	-10.1	23.9	0.7
Capitalised production	0.0	0.2	0.0	0.2
Raw materials and consumables used	-84.4	-58.3	-133.1	-94.3
External services	-99.8	-70.0	-162.1	-119.6
Employee benefit expenses	-20.6	-13.7	-36.9	-26.2
Depreciation and amortisation	-1.4	-0.8	-2.2	-1.4
Other operating expenses	-6.2	-5.0	-11.4	-8.7
Operating profit	26.4	21.1	40.4	27.2
Financial income	0.2	0.1	0.2	0.1
Financial expenses	-0.2	0.0	-0.4	-0.5
Share of associated company profits	0.0	0.0	0.0	0.0
Profit before taxes	26.3	21.2	40.1	26.8
Income taxes	-5.4	-4.2	-8.2	-5.6
Profit for the period	21.0	17.0	31.9	21.2
Profit attributable to				
Equity holders of the parent company	21.0	17.7	31.9	21.2
Non-controlling interest	0.0	-0.7	0.0	0.0
	21.0	17.0	31.9	21.2
Earnings per share calculated from the profit attributable to shareholders of the parent company, EUR per share				
Average number of shares during the period, basic	58,250,752	41,534,812	54,067,297	41,062,559
Earnings per share, basic	0.36	0.43	0.59	0.52
Average number of shares during the period, diluted	58,276,850	41,534,812	54,073,804	41,062,559
Earnings per share, diluted	0.36	0.43	0.59	0.52

CONSOLIDATED BALANCE SHEET, EUR MILLION
DEC 31, 2016
DEC 31, 2015

	DEC 31, 2016	DEC 31, 2015
Assets		
<i>Non-current assets</i>		
Goodwill	4.6	1.7
Other intangible assets	3.4	2.6
Property, plant and equipment	8.0	0.9
Investment properties	0.8	0.8
Investments and receivables	2.0	5.7
Deferred tax assets	2.7	2.9
Non-current assets total	21.5	14.6
<i>Current assets</i>		
Inventories	77.5	51.3
Trade and other receivables	92.0	47.2
Cash and cash equivalents	67.7	24.6
Current assets total	237.2	123.0
Assets total	258.7	137.6

EQUITY AND LIABILITIES
DEC 31, 2016
DEC 31, 2015

	DEC 31, 2016	DEC 31, 2015
Equity		
Share capital	0.1	0.1
Invested non-restricted equity reserve	69.2	5.8
Equity loans	0.0	5.0
Retained earnings	14.4	1.2
Profit for the financial period	31.9	21.2
Equity attributable to shareholders of the parent company	115.6	33.4
Non-controlling interest	0.0	0.0
Equity total	115.6	33.4
<i>Non-current liabilities</i>		
Deferred tax liabilities	0.4	0.1
Provisions	3.0	1.3
Financial liabilities	4.1	8.2
Other non-current liabilities	3.6	1.7
Non-current liabilities total	11.2	11.3
<i>Current liabilities</i>		
Financial liabilities	12.3	8.7
Advances received	67.3	47.9
Trade and other payables	52.4	36.3
Current liabilities total	131.9	92.9
Liabilities total	143.1	104.2
Equity and liabilities total	258.7	137.6

**CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE
 PARENT COMPANY**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, EUR MILLION	Share capital	Invested non-restricted equity reserve	Equity loans	Retained earnings	Total	Non-controlling interest	Equity, total
Equity at 1 January 2015	0.1	0.3		14.5	14.9	1.6	16.5
Comprehensive income							
Profit or loss for the financial period				21.2	21.2	0.0	21.2
Total comprehensive income				21.2	21.2	0.0	21.2
Transactions with equity holders							
Distribution of dividends				-5.0	-5.0	-1.9	-6.9
Share issue		5.5			5.5		5.5
Other changes				0.0	0.0		0.0
Transactions with equity holders, total		5.5		-5.0	0.5	-1.9	-1.4
Equity loan			5.0		5.0		5.0
Changes in holdings in subsidiaries							
Acquisitions of non-controlling interest not resulting change in control				-8.3	-8.3	0.3	-8.0
Equity at 31 December 2015	0.1	5.8	5.0	22.4	33.4	0.0	33.4
Equity at 1 January 2016	0.1	5.8	5.0	22.4	33.4	0.0	33.4
Comprehensive income							
Profit or loss for the financial period				31.9	31.9	0.0	31.9
Total comprehensive income				31.9	31.9	0.0	31.9
Transactions with equity holders							
Distribution of dividends				-7.9	-7.9		-7.9
Share issue		65.5	-5.0		60.5		60.5
Direct expenses related to share issue		-2.2			-2.2		-2.2
Share-based compensation				0.0	0.0		0.0
Equity loan interest				-0.1	-0.1		-0.1
Other changes				0.0	0.0	0.0	0.0
Transactions with equity holders, total		63.3	-5.0	-8.0	50.3	0.0	50.3
Equity at 31 December 2016	0.1	69.2		46.3	115.6	0.0	115.6

CONSOLIDATED CASH FLOW STATEMENT
EUR MILLION
1–12/2016
1–12/2015

<i>Cash flow from operating activities</i>		
Profit for the financial period	31.9	21.2
<i>Adjustments:</i>		
Non-cash items	1.8	0.3
Depreciation and amortisation	2.2	1.4
Financial income and expenses	0.2	1.0
Capital gains	-0.1	-0.4
Income taxes	8.2	5.6
<i>Changes in working capital:</i>		
Change in trade and other receivables	-32.9	-10.1
Change in inventories	-25.3	-4.1
Change in trade and other payables	30.3	11.9
Interest paid and other financial expenses	-0.4	-1.0
Financial income received	0.2	0.1
Income taxes paid	-7.9	-4.6
Net cash from operating activities	8.3	21.3
<i>Cash flow from investments</i>		
Investment in property, plant and equipment	-7.4	-0.7
Investments in intangible assets	-0.1	-0.4
Sale of subsidiaries	0.0	0.8
Acquisition of subsidiaries	-4.5	-0.8
Proceeds from sale of tangible and intangible assets	0.1	0.0
Purchases of available-for-sale financial assets and proceeds	0.1	0.3
Loans granted	-2.3	-4.4
Repayments of loan receivables	0.1	0.0
Net cash from investments	-14.1	-5.1
<i>Cash flow from financing</i>		
Long-term loans drawn and repaid	9.1	25.5
Short-term loans repaid	-9.0	-19.2
Equity loans drawn	0.0	5.0
Equity loan interest paid	-0.2	0.0
Acquisition of non-controlling interest ¹⁾	-0.9	-1.8
Dividends paid	-7.9	-6.9
Paid share issue	60.5	0.0
Direct cost related to paid share issue	-2.7	0.0
Net cash used in financing activities	48.9	2.5
Change in cash and cash equivalents (+/-)		
Cash and cash equivalents at the beginning of the financial year	24.6	5.9
Cash and cash equivalents at the end of the financial year	67.7	24.6

¹⁾ 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

	7-12/2016	7-12/2015	1-12/2016	1-12/2015
Net sales, EUR million	221.3	178.4	361.8	275.6
Net sales, change %	24.0%	78.3%	31.3%	61.1%
Operating profit, EUR million	26.4	21.1	40.4	27.2
Operating profit, as % of net sales	11.9%	11.8%	11.2 %	9.9 %
Profit or loss for the period, EUR million	21.0	17.7	31.9	21.2
Profit or loss for the period, as % of net sales	9.5%	9.9%	8.8%	7.7%
Return on equity, ROE, %			42.8%	85.1%
Return on investment, ROI, %			44.5%	66.5%
Equity ratio, %			60.4%	37.2%
Gearing, %			9.4%	32.6%
Net gearing ratio, %			-44.2%	-22.9%
Personnel during the period, average			566	402
Gross expenditure on assets, EUR million			7.6	1.1
Equity / share, EUR			1.98	0.74
Earnings per share, EUR, basic	0.36	0.43	0.59	0.52
Earnings per share, EUR, diluted	0.36	0.43	0.59	0.52
Average number of shares during the period, basic	58,250,752	41,534,812	54,067,297	41,062,559
Average number of shares during the period, diluted	58,263,729	41,534,812	54,073,804	41,062,559
Number of shares at the end of the period	58,250,752	45,310,404	58,250,752	45,310,404
Market value of share, EUR million			593.6	-
Share turnover, shares			11,912,330	-
Share turnover out of average number of shares, %			22.0%	-
Share prices, EUR				
Highest price, EUR			10.19	-
Lowest price, EUR			5.52	-
Average price, EUR			8.03	-
Price at Dec 31, EUR			10.19	-
Dividend / share, EUR ^{1) 2)}			0.22	0.18
Dividend payout ratio, % ²⁾			37.3%	33.8%
Effective dividend yield % ²⁾			2.2%	-
Price / Earnings			17.27	-

¹⁾ Year 2015 adjusted for share issue (split) in March 30, 2016

²⁾ Year 2016 dividend proposal

DEFINITIONS OF KEY FIGURES

Earnings per share	$\frac{\text{Profit for the financial year}}{\text{Issue-adjusted average number of shares during the period}}$
Equity / share	$\frac{\text{Equity}}{\text{Issue-adjusted average number of shares at the end of period}}$
Dividend / share	$\frac{\text{Dividend}}{\text{Issue-adjusted number of shares on Dec 31}}$

ALTERNATIVE PERFORMANCE MEASURES BY ESMA

The company has taken into consideration new guidelines of the European Securities and Markets Authority (ESMA) regarding Alternative Performance Measures that were entered into force on July 3, 2016. Key figures used by the company are well-known figures, which are mainly derived from the result and balance sheet. Alternative performance measures may not be considered as a substitute for measures of performance in accordance with the IFRS.

Return on equity (ROE), %	100x	$\frac{\text{Profit for the financial year}}{\text{Equity (average)}}$
Return on investments (ROI), %	100x	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities (average)}}$
Equity ratio, %	100x	$\frac{\text{Equity}}{\text{Balance sheet total - advances received}}$
Gearing, %	100x	$\frac{\text{Non-current liabilities}}{\text{Equity + provisions}}$
Net gearing ratio, %	100x	$\frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity}}$
Dividend payout ratio, %	100x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Effective dividend yield %	100x	$\frac{\text{Dividend per share}}{\text{Share price on Dec 31}}$
Price / Earnings (P/E)		$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings per share}}$

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 as a whole and the segment figures are consistent with the Group figures.

LIABILITIES AND GUARANTEES, EUR MILLION	Dec 31, 2016	Dec 31, 2015
Loans covered by pledges on assets		
Loans from financial institutions	11.2	12.5
Debts on shares in unsold housing and real estate company shares	3.8	4.7
Instalment debts	1.4	0.0
Total	16.4	17.2
Guarantees		
Corporate mortgages	1.8	1.8
Real-estate mortgages	4.6	12.3
Pledges	5.7	4.6
Absolute guarantees	1.2	0.3
Total	13.3	18.9
Contract guarantees		
Production guarantees	21.7	19.9
Warranty guarantees	9.4	4.7
RS guarantees	19.5	13.4
Payment guarantees	15.4	0.2
Total	66.0	38.1
Liability to adjust value added tax on property investments		
Liability to adjust VAT	1.4	0.0

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.

RELATED PARTIES

The Group's related parties include Group companies, members of the Board of Directors, the CEO, the Chief Financial Officer and the Chief Operating Officer 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 2016	SALES 2015	PURCHASES 2016	PURCHASES 2015
Associated companies	10.6	1.6	0.0	0.0
Key personnel and their controlled entities	10.1	16.5	2.0	1.3
Total	20.7	18.1	2.0	1.3

EUR MILLION	RECEIVABLES DEC 31, 2016	RECEIVABLES DEC 31, 2015	LIABILITIES DEC 31, 2016	LIABILITIES DEC 31, 2015
Associated companies	1.4	0.5	0.0	0.0
Key personnel and their controlled entities	0.8	0.1	0.2	0.0
Total	2.2	0.6	0.2	0.0

A major part of related party transactions are connected with purchase of apartments and other premises from the company. The transactions are valued at the debt-free selling price of the completed site. Purchases are mainly equipment rents and other service purchases.

ACQUIRED BUSINESS

IFRS 3 is applied on business acquisitions, whereby identifiable assets, liabilities and contingent liabilities are valued at fair value on the acquisition date and all costs relating to the acquisition are recorded in the income statement.

The assets and liabilities arising from the acquisition of subsidiary Rakennus Oy Wareco

Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco on October 3, 2016. Wareco is a building renovation company operating in Finnish capital region, operating in real estate renovations, plumbing services of apartment house companies, renovation and modification projects for facades as well as accessory and complementary building.

Through the acquisition Lehto strengthens and expands its business in building renovation and gets more professional personnel for example for large renovation projects and plumbing renovations.

Wareco employed almost 70 at the time of acquisition and its net sales in 2015 was EUR 28.7 million and the operating profit was EUR 0.7 million.

The purchase price of the shares on a debt and cash free basis was about EUR 2.6 million. Final purchase price paid was EUR 4.2 million. The final purchase price divergence from estimated because net working capital was higher than estimated. The purchase price was paid in cash from Lehto's cash reserves.

Lehto will also pay additional purchase price on the basis of the profit that Wareco will achieve in 2016, 2017 and 2018. The company has estimated additional purchase price to be about EUR 3.4 million.

	EUR MILLION
<i>Acquired assets</i>	
Customer relationships	1.5
Other intangible assets	0.1
Property, plant and equipment	0.5
Inventories	1.2
Non-current receivables	0.8
Current receivables	4.6
Cash at bank and in hand	0.0
Assets, total	8.7
<i>Acquired liabilities</i>	
Deferred tax liabilities	0.3
Current liabilities	3.7
Liabilities, total	4.0
Net assets	4.7
<i>Goodwill</i>	
Consideration transferred	7.6
Identifiable net assets of the acquired business	4.7
Goodwill	2.9

The acquisition resulted in goodwill of EUR 2.9 million, attributable to the synergy benefits from the acquired business upon the sale of the business operations. Goodwill is not deductible in taxation.

Purchase price paid in cash	4.2
Contingent additional purchase price	3.4
Acquisition cost	7.6
Cash and cash equivalents of the acquired company	-0.0
Effect on cash flow in acquisition	4.2
Effect on cash flow after the payment of the additional purchase price	7.6

Direct costs from the acquisition, which are recorded in the income statement, totaled EUR 192 thousand.

Dometalot business operations

Optimikodit Oy, a Lehto Group company, bought the business operations of Dometalot Oy, comprising energy-efficient construction solutions. The sale of the business included the transfer of customary business contracts, immaterial rights and 13 employees to Lehto. Dometalot Oy's personnel continued at Lehto under their existing terms and conditions of employment. The net sales of the acquired business were approximately EUR 1.5 million in 2015. The acquisition had no significant impact on the Lehto Group's 2016 revenues, operating result or financial position.

The consolidated statement of comprehensive income includes post-acquisition net sales from the acquired business operations of EUR 4.6 million and an operating loss of EUR 0.3 million. Were the business acquisitions described above carried out at the beginning of the financial year, the Group's estimated net sales would have been EUR 386.2 million and operating profit EUR 41.6 million.