Lehto Group Plc´s financial statement bulletin 1 January – 31 December 2018

Net sales EUR 721.5 million, up 20.7%. Operating profit EUR 37.2 million, or 5.2% of net sales

ECONOMICALLY DRIVEN CONSTRUCTION

This 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 statement bulletin is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.

Summary 2018

GROUP	1–12/2018	1–12/2017	10–12/2018	10–12/2017
Net sales, EUR million	721.5	597.6	231.6	262.2
Change in net sales, %	20.7%	74.5%	-11.7%	102.1%
Operating profit, EUR million	37.2	64.6	15.3	39.1
Operating profit, % of net sales	5.2%	10.8%	6.6%	14.9%
Profit for the period, EUR million	28.7	51.6	11.5	31.1
Order backlog at period end, EUR million	655.6	538.1	655.6	538.1
Earnings per share, EUR	0.49	0.89	0.20	0.53
Cash and cash equivalents, EUR million	53.4	68.0	53.4	68.0
Interest-bearing liabilities, EUR million	115.9	36.9	115.9	36.9
Equity ratio, %	42.7%	56.3%	42.7%	56.3%
Net gearing ratio, %	38.5%	-20.6%	38.5%	-20.6%

- Net sales grew by 20.7% (74.5%) in 2018 to EUR 721.5 (597.6) million. Net sales grew in the Housing, Business Premises, and Social Care and Educational Premises service areas, but declined slightly in the Building Renovation service area.
- Operating profit was EUR 37.2 (64.6) million, or 5.2% (10.8%) of net sales.
- The operating result was weakened especially by loss-making complete renovation projects and the weak profitability of social care and educational premises projects.
- Complete renovation operations had a negative impact of about EUR 15 million on consolidated operating profit. After the end of the review period, Lehto announced that it had discontinued its Building Renovation service area and will limit its renovation operations. Profitable pipeline renovation activities have been carried out in the discontinued Building Renovation service area. This line of business has been transferred to the Housing service area, where it will be further developed and continued.
- Factory production capacity was increased. Production facilities grew by about 30,000 m^2.
- The Board proposes a dividend of EUR 0.24 per share, representing about 48.7% of the Group's result for the financial year.

NET SALES BY SERVICE AREA, EUR MILLION	1–12/2018	1–12/2017	CHANGE
Business Premises	231.0	181.2	27.5%
Housing	301.5	232.2	29.9%
Social Care and Educational Premises	117.8	109.1	8.0%
Building Renovation	71.1	75.1	-5.3%
Total	**721.5**	**597.6**	**20.7%**

July–December 2018

Net sales for the second half of the year amounted to EUR 429.6 million (EUR 383.6 million in July-December 2017), substantially higher than in the first half (EUR 291.9 million). The primary reason is that projects in the Housing service area were completed and recognised as revenue in the latter half of the year.

As in the previous year, net sales of the last quarter were the highest of the year, EUR 231.6 million, but lower than in the previous year (EUR 262.2 million Q4 2017).

Operating profit for July-December was EUR 23.5 million (EUR 49.1 million 7-12/2017), representing 5.5% (12.8%) of net sales. The negative margins of complete renovation projects burdened operating profit particularly in the second half of the year.

CEO Hannu Lehto:

"We are now publishing our third financial statements as a listed company. In terms of net sales, we have made progress each year. Our average annual growth in 2016-2018 has been over 40%. We have also racked up excellent earnings during this period of strong growth. However, our earnings trend could no longer keep up the pace during the year now ended. The main reasons for this were, considering the high growth, insufficient pricing and cost control processes and the unsuccessful business development in some sectors which have also turned out to weakly fit in the Group's strategy.

In accordance with our strategy, our key competitive factors are design management, standardised solutions and industrial manufacturing. We have found that in some business areas the adoption of these principles has not been successful and the set targets were not achieved. In complete renovation area we started many projects in 2017 – 2018. The projects incurred significantly more costs than planned, due to which the renovation business had a substantial negative impact on the Group's result. Profitability of projects in Social Care and Educational Premises service area has declined too as the tailored solutions have turned out to be more expensive as expected.

We have analysed the factors contributing to the weaker result and taken corrective measures to improve profitability. The Building Renovation service area has been discontinued and its organisation merged into other service areas. In future, we carry out complete renovation projects selectively only as part of new construction or other larger commercial projects. We have created operating models for project design and calculation in the Social Care and Educational Premises service area that ensure project execution also on economically sustainable way. In Social Care and Educational Premises, we are continuously developing technically standardised solutions that we can use to build commercial projects that cater to the needs of the customer.

Business in the Housing and Business Premises service areas has progressed as planned. Both units increased their net sales and project margins were at a good level.

Based on our experiences in 2018, we have even greater confidence in our strategy and will continue to carry out development measures to enable us to even more efficiently produce high-quality solutions that meet our customers' functional and commercial needs. According to many research institutions the growth of Finnish construction market is expected to slow down or even decline. We believe that this slowdown will facilitate availability of labour and lead to more favourable prices for raw materials and construction components."

Outlook for 2019

Lehto estimates that the Group's net sales for 2019 will be at the level of 2018 net sales (EUR 721.5 million in 2018) and that operating profit will be approximately 5-7% of net sales (5.2% in 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 2019, and on the current outlook of the development of housing market.

The most significant risks related to net sales and operating profit are the decline in the demand for apartments, the postponement of start of new care home and school projects, and the delay in starts of business premises projects currently at the negotiation phase.

Press conference on the financial statements

Lehto Group will hold a press conference for investors, analysts and the media on Tuesday, 12 February 2019 at 10:00 a.m. (EET). The conference will be held in the main building of Allas Sea Pool, which was built by the company. The address is Katajanokanlaituri 2a, Helsinki.

CEO Hannu Lehto and CFO Veli-Pekka Paloranta will speak at the conference. The event will begin with a brief financial summary in English. The rest of the press conference will be held in Finnish.

The press conference will be webcast live at lehto.fi/en/investors. The live webcast will begin at 10:00 a.m. Finnish time. A recording will be made available at the same address as soon as possible after the conference.

It is also possible to participate in the press conference via a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference, 9:55 a.m. Finnish time.

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Business environment and business development in 2018

GENERAL MARKET DEVELOPMENT

In 2018, growth in construction continued in Finland for the fourth year running. According to estimates published in late 2018 by several financial research institutions (including the Confederation of Finnish Construction Industries RT, the Research Institute of the Finnish Economy ETLA, and the construction trends group led by the Ministry of Finance), growth in construction amounted to about 3-4%, while the Finnish economy grew at a rate of about 2.5%. It is estimated that growth of the Finnish economy will slacken in 2019 and that construction growth will slow down, and production may even decline from its 2018 level. In report, published in February 2019, the Ministry of Finance estimates that the total construction output volume is expected to decrease by 0.5 – 2.5 per cent in 2019 and further 1.5 – 3.5 per cent in 2020.

Construction growth has been maintained particularly by the construction of new residential buildings. It is estimated that the construction of about 44,000 new residential units was started up in 2018. However, the number of new building permits began to decline in the second half of 2018, and it is generally expected that housing start-ups will decline in 2019. Demand for housing has been maintained by the good availability of financing and urbanisation, which is currently seen as the main driver of housing market trends.

Commercial and office construction remained more or less on a par with the previous year, but construction of industrial and warehouse buildings saw a slight year-on-year decline (RT 10/2018). The boom in construction led to a rise in the costs of labour, subcontracting, raw materials and elements. Availability of skilled labour is still the main factor that has limited production growth.

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 structural and spatial solutions developed or tried and tested by Lehto and Lehto's own pre-fabricated elements. 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 27.5% year-on-year to EUR 231.0 (181.2) million in 2018. A total of 31 projects were completed during the review year, the largest of which were a logistics centre for DSV in Vantaa and an office and hotel building in Tikkurila, Vantaa.

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, and had started 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 continued the development project of the Lippulaiva shopping centre in Espoonlahti, together with Citycon Oyj and designers, but Lehto and Citycon decided to end the negotiations on this turnkey project in October. For three years, the parties and designers sought to find a solution that would be in line with the operational and financial objectives of both Citycon and Lehto, but no such suitable solution could be found. The order backlog of the Business Premises service area grew during the review period and was EUR 134.5 million at year end (EUR 127.4 million on 31 December 2017). The order backlog does not include the possibly starting Hippo 2020 project.

SOCIAL CARE AND EDUCATIONAL PREMISES

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

Net sales of Social Care and Educational Premises grew by 8.0% from the previous year to EUR 117.8 (109.1) million in 2018. Care homes for the elderly generated the bulk of the net sales. During the review year, 28 (29) care home and assisted living units were completed, and 8 (25) were under construction at the end of the year. Two (two) daycare centres and one (one) school were completed during the review period. At the end of the review period, three (one) schools and one health centre 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. The company did not estimate the cost impacts of individualised construction with sufficient accuracy in advance.

Lehto continued to develop its school and daycare centre collection with its concept for the productisation of commercially configurable and technically modular solutions. There is an immediate need in the market for both temporary premises and permanent schools. The first modular daycare centres and schools will be delivered to Helsinki and the municipality of Botkyrka in Sweden.

In addition to nursing homes, the service area is building assisted living housing. The number of elderly people is rising in Finland and they need diverse living solutions with care services. Lehto seeks to harness its strong expertise in housing construction in its assisted living solutions.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 60.0 million (EUR 100.3 million on 31 December 2017). The decline in the order backlog is due to the decrease in the number of care sector properties under construction.

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.

Net sales in the Housing service area grew by 29.9% from the previous year to EUR 301.5 (232.2) million. A total of 1,900 (2,002) apartments were sold in the review period. At the end of the period, 3,229 (2,029) new apartments were under construction, of which 1,647 (309) had not yet been sold. There were 41 (12) completed, unsold apartments. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other Finnish growth centres: the Tampere, Turku, Jyväskylä and Oulu regions. The largest housing construction projects currently in progress are in Kaivoksela in Vantaa and in the centre of Oulu.

The number of residential units that are under construction but which have not as yet been sold grew during the financial year. This is primarily due to the decline in demand by private investors in the latter half of the year. A larger share of apartments are sold to consumers, and thus sales are concluded closer to the completion of construction, whereas sales to investor customers have historically been made in the early phases of construction. During the financial year, Lehto made outlays on promoting sales to consumers and stepped up marketing to consumer customers. Human resources in housing sales have also been boosted significantly. Demand from institutional investors remained at a good level. In Lehto's view, there is now greater interest in the market for acquiring large housing portfolios.

Availability of financing for housing remained good during the review year and interest rates were low. However, during discussions with banks towards the end of the period, indications came to light that the terms and conditions of financing may be tightened, especially in the case of housing corporations majority-owned by investors. Growth in housing production is also reflected in the growth in inventories, as net sales are only recognised upon delivery. To manage its balance sheet risk, Lehto continuously estimates the trend in housing sales and decides separately on the start-up of each developer-contracted housing project.

The housing construction order backlog at year end was EUR 365.4 million (EUR 216.9 million on 31 December 2017). The housing production order backlog includes the proportion of started developer contracting projects that has not been recognised as net sales. A construction project is included in the order backlog once the decision to start construction has been made and the contract for a developer contracting project has been signed.

BUILDING RENOVATION

In 2018, Lehto's Building Renovation service area carried out pipeline renovations (renovations of apartment building plumbing), renovation contracts, developer-contracted renovation projects (an old residential or office property is renovated for use as housing) and developer-contracted projects to erect additional floors (one to two additional floors are built on top of existing buildings).

Net sales in the Building Renovation service area declined by 5.3% from the previous year to EUR 71.1 (75.1) million. During the review year, 16 pipeline renovation contracts were completed in the Helsinki Metropolitan Area, and 13 were under way at year-end. The pipeline renovation business accounts for about one-third of the net sales of the service area and the project margins have been in line with Lehto's targets.

Two developer-contracted renovation projects were completed during the review year, one in Tikkurila in Vantaa and one in Hämeenlinna. At the end of the review period, Lehto had two developer-contracted renovation projects in progress in which an old residential or office building is renovated for use as housing and new apartments are built next to the renovated property.

Two complete renovation projects were completed during the review period and three were under way at the end of the period with a total sales value of about EUR 56 million. The margin of these projects is deeply in the red. The projects will be completed in the first half of 2019 and the expected losses have been recognised in the 2018 financial statements.

The margins of projects other than pipeline renovation have been weak or negative. The project implementation costs have been considerably higher than expected. Projects other than pipeline renovation had a negative impact of about EUR 15 million on Lehto's operating profit for 2018. As announced in a release published on 2 November 2018, Lehto took steps to reorganise the Building Renovation service area and improve profitability.

After the end of the financial year, the Building Renovation service area was discontinued and the company decided to limit its renovation operations. Building renovation functions have been merged into other service areas. The pipeline renovation business and further development of the additional floor construction concept have been transferred to the Housing service area, while other complete renovation operations have been transferred to Business Premises. Ongoing complete renovation projects will be concluded by the current project organisation. Once these projects have been completed, the project organisation will be transferred to other projects in the Business Premises service area.

In the future, new complete renovation projects will only be undertaken selectively on condition that the renovation is related to new construction projects or when it is a significant part of a larger commercial entity. Lehto committed to a number of such projects even before the discontinuation of the Building Renovation service area. Lehto will also continue the development of the additional floor construction concept as part of additional and complementary construction.

Lehto will continue and develop its profitable pipeline renovation operations. At the end of the financial year, Lehto launched the Lehto Total service package, which enables housing corporations to finance their plumbing renovations by selling building rights for complementary building.

The order backlog of Building Renovation grew to EUR 95.7 million at year end (EUR 93.6 million on 31 December 2017). Growth in the order backlog was due particularly to an increase in orders for pipeline renovations.

SWEDISH OPERATIONS

Lehto established a subsidiary in Sweden in August 2017. One business premises project was completed during the financial year. The unit is currently carrying out a daycare centre project in which three modular daycare 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 launching its first housing construction project in the Stockholm region.

Lehto is planning measures to develop business in Sweden. In Lehto's view, there is good demand for prefabricated modular products, especially in the market for affordably priced housing and daycare centres and schools. The Swedish unit has eight employees and its number of employees is expected to grow.

FACTORY PRODUCTION

Lehto manufactures a variety of building modules and elements at its own production facilities for its own use. Lehto has building element and module production units in Humppila, Oulainen, Oulu, Ii and Siikajoki. At the end of the review year, more than 400 people worked in factory operations.

During the review period, Lehto continued to expand and boost the efficiency of its factory capacity. In March 2018, Lehto acquired the factory operations of Pyhännän Rakennustuote Oy in Hartola. Leased premises with about 20,000 m^2 of floor area (owned and located in the Municipality of Hartola), production equipment for the manufacture of wood elements and modules, and 75 employees were transferred to Lehto in this transaction.

A new 9 000 m^2 factory was completed in Oulainen in September. Logistics, warehouse functions, and the manufacture of bathroom modules, kitchen furniture and other fixtures and fittings are now concentrated on this factory. The total value of the investment is some EUR 8.0 million.

Balance sheet and financing

The Group's financial standing remained good. At the end of the financial period, the equity ratio was 42.7% (31 Dec. 2017: 56.3%) and net gearing was 38.5% (-20.6%).

CONSOLIDATED BALANCE SHEET, EUR MILLION	31 DEC 2018	31 DEC 2017
Non-current assets	37.7	25.1
Current assets		
Inventories	238.2	132.9
Current receivables	139.0	111.2
Cash and cash equivalents	53.4	68.0
Total assets	**468.3**	**337.2**
Equity	162.4	150.7
Financial liabilities	115.9	36.9
Advances received	88.3	69.3
Other payables	101.8	80.2
Total equity and liabilities	**468.3**	**337.2**

EQUITY AND LIABILITIES

Equity grew to EUR 162.4 million (EUR 150.7 million on 31 December 2017). Equity increased through earnings and the amount of equity was reduced by a dividend payout of EUR 19.8 million in April, representing 38.4% of the profit of the 1 January-31 December 2017 financial period.

Financial liabilities grew to EUR 115.9 (36.9) million. Loans were withdrawn particularly for the construction-stage financing of projects in the Housing service area and to acquire plots and other building rights. Interest-bearing liabilities include normal bank loans as well as loans drawn by housing companies to the extent these are allocated to unsold apartments.

Advances received grew to EUR 88.3 (69.3) million. Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities grew to EUR 101.8 (80.2) million. Other liabilities include trade payables of EUR 40.3 (38.9) million and VAT debt of EUR 19.7 (13.2) million.

ASSETS

Non-current assets amounted to EUR 37.7 million at the end of the review period (EUR 25.1 million on 31 December 2017). Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 12.7 (5.0) million in factory buildings and EUR 8.5 (4.4) million in machinery and equipment.

Inventories grew to EUR 238.2 (132.9) million. The growth was attributable to strong business volume growth, and most of the inventories comprise costs accrued from incomplete housing construction projects.

Current receivables grew to EUR 139.0 (111.2) million, including trade receivables of EUR 62.2 (65.9) million and percentage-of-completion receivables of EUR 71.1 (39.1) million. The growth in receivables is related to the increased business volume.

CASH FLOW STATEMENT, EUR MILLION	1–12/2018	1–12/2017
Cash flow from operating activities	-18.3	-2.8
Cash flow from investments	-13.7	-0.3
Cash flow from financing	17.5	3.4
Change in cash and cash equivalents	**-14.5**	**0.3**
Cash and cash equivalents at the beginning of the period	68.0	67.7
Cash and cash equivalents at the end of the period	53.4	68.0

Cash and cash equivalents decreased to EUR 53.4 (68.0) million. Net cash from operating activities was EUR -18.3 (-2.8) million, which includes a negative impact of EUR 52.8 (55.5) million due to the growth in net working capital. The main factor behind net working capital growth was the increase in inventories. As a result of business growth, the costs tied to incomplete projects have increased and the Group has acquired more building rights than previously for future construction projects. The growth of inventories is also attributable to growth in factory production and the resulting increase in stock of materials.

Net cash flow from investments was EUR 13.7 million negative, including EUR 14.6 million investments in tangible assets mainly relating to factory production. Investments in intangible rights amounted to EUR 1.3 million.

Net cash flow from financing was EUR 17.5 million positive. A total of EUR 109.3 million was drawn in loans and EUR 72.0 million was repaid. Cash flow from financing also includes cash expenses of EUR 19.8 million due to dividends paid.

On 1 November 2018, Lehto signed a EUR 50 million financing agreement with OP Corporate Bank plc and Nordea Bank plc. This financing agreement is a Revolving Credit Facility (RCF) that is valid for three years. The agreement employs the standard covenants for profitability and indebtedness. At the end of the financial year, the credit facility had not been used.

Other significant events during the financial period

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 (currently Lehto Components 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. At the same time, it was announced that Chief Operating Officer Asko Myllymäki stepped down from the Group's Executive Board as from 20 March 2018.

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.

On **1 August 2018**, Lehto reduced the operating profit forecast for 2018. Lehto estimated that net sales for 2018 will grow by 20-30% from 2017 and that operating profit will be approximately 8-9% of net sales. The decrease in the forecast was 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.

On **5 September 2018**, Lehto announced that Ville Kettunen (Civil Engineer, construction) had been appointed as Executive Vice President for the Social Care and Educational Premises service area and as a member of Lehto Group's Executive Board.

On **19 October 2018**, Lehto downgraded its financial outlook for 2018. Lehto estimated that the Group's net sales for 2018 will grow by 20-25% from 2017 and that operating profit will be approximately 5-6% of net sales. This weaker outlook stemmed from a further decline in project margins, particularly in the Social Care and Educational Premises and the Building Renovation service areas, combined with a slightly lower estimate for the Group's total net sales. It was reported that the decline in net sales is primarily due to delays in launching Social Care and Educational Premises projects. The release noted that business in the Housing and Business Premises service areas is progressing as planned.

On **2 November 2018**, Lehto announced its plans to discontinue the Building Renovation service area and merge renovation functions into other service areas. It was planned that the pipeline renovation unit would be transferred to the Housing service area and other renovation operations to the Business Premises service area, where ongoing complete renovation projects would be completed by the current project organisation. Upon the completion of these projects, the project organisation would then be transferred to other projects in the Business Premises service area. The planned changes were not expected to result in a need to reduce personnel.

On **2 November 2018**, Lehto announced a change in Lehto Group's Executive Board as of 5 November 2018. Pekka Lindeman, Executive Vice President of the Building Renovation service area, stepped down from the Group Executive Board. The change is due to the reorganisation of the Building Renovation service area, which Lehto announced in a stock exchange release on 2 November 2018.

As of **5 November 2018**, the Executive Board consists of the following:

- Hannu Lehto, CEO
- Veli-Pekka Paloranta, CFO
- Pasi Kokko, EVP, Housing service area
- Jaakko Heikkilä, EVP, Business Premises service area
- Ville Kettunen, EVP, Social Care and Educational Premises service area
- Timo Reiniluoto, EVP, Business Support Services
- Pekka Korkala, EVP, Factory production
- Arto Tolonen, Chief Development Officer

On **20 November 2018**, Lehto Group Plc announced that three of its biggest shareholders have named their representatives for the shareholders' Nomination Committee whose job is to prepare the proposals concerning Board members and remuneration for the Annual General Meeting of 2019. The members of the Nomination Committee are Hannu Lehto, Vesa Vanha-Honko and Mikko Kinnunen.

Risks and factors of uncertainty

In its business operations, Lehto is exposed to operative risks as well as 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.

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.

Especially in the changing market environment 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. During the 2018 financial year, the number of residential units under construction that Lehto had not yet sold grew significantly. This increases the sale and price risk related to housing business.

Part of Lehto's business involves agreements according to which Lehto builds premises in line with the customer's needs and sells the premises upon their completion or at a later stage to a fund. Although Lehto works with well-known and established funds, Lehto cannot be certain that the funds have the capacity 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 large 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. Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them.

Personnel

The average number of personnel during the review period was 1,457 (1,013). The number of personnel at year end was 1,552 (1,184). About 49% (49%) of the Group's personnel are salaried employees and 51% (51%) employees working at construction sites.

Lehto's personnel grew by 368 in 2018. The major share of this increase is due to growth in the Housing service area and factory operations.

The majority of Lehto's employees participate in the performance bonus plan, which is based on targets set on a project-specific or annual basis. In addition, no more than 70 key employees participate in a long-term share-based incentive plan with a one-year vesting period and a two-year restriction period. Targets are set for the key employees for each vesting period, and the employee's performance bonus is calculated on the basis of the achievement of the targets. The performance bonus is converted into an increased number of shares multiplied by a bonus factor determined by the Board. The equivalent bonus is paid to the employee after the end of the two-year restriction period. The bonus is paid to the key employees after the restriction period partly in the form of shares and partly in the form of cash.

Research and development

Lehto develops and manufactures building modules and components, such as bathroom/kitchen modules, housing space elements, wall elements, large roof elements, technical building modules, 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, components and space concepts is part of continuing operations, and the related costs are largely recorded as an expense in the income statement. Capitalised development expenditure during the financial year amounted to EUR 0.5 million. The most significant development investments are related to product design and the development of product factory operations.

Flagging notifications

On 1 March 2018, it was announced that Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 28 February 2018. Following the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell from 8.25% to 1.10%.

On 2 March 2018, it was announced that the total shares and voting rights in Lehto owned by funds administered by OP Fund Management Company Ltd had exceeded the 5% threshold to 5.37%.

On 7 June 2018, it was announced that the total shares and voting rights in Lehto owned by funds administered by OP Fund Management Company Ltd had risen from 5.37% to 6.27%.

On 28 December 2018, it was announced that the Lehto shares and voting rights owned by OP-Suomi investment fund, which is managed by OP Fund Management Company Ltd, had fallen from 5.01% to 4.83%. The release noted that the total holding in Lehto of the investment funds managed by OP Fund Management Company Ltd still exceeds the 5% threshold. Its total holding on 21 December 2018 was 5.29%.

Events after the reporting period

After the end of the review period, Lehto announced that it had discontinued its Building Renovation service area and will limit its renovation operations.

Annual General Meeting and Annual Report

The Annual General Meeting of Lehto Group Plc will be held on Friday 29 March 2019 at 1.00 p.m. at Elektroniikkatie 8, Oulu. The Board of Directors will publish the Notice of Meeting no later than on 8 March 2019.

Lehto Group Plc's Annual Report, including the company's financial statements, report by the Board of Directors, auditor's report, corporate governance statement, remuneration report and responsibility report will be available on the company's website no later than on Friday, 8 March 2019.

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 2018 are EUR 82,813,733.01, of which the operating profit is EUR 15,674,875.79.

The Board of Directors proposes to the Annual General Meeting gathering on 29 March 2019 that the dividend payable on the basis of the balance sheet confirmed for the financial year 1 January- 31 December 2018 be EUR 0.24 (0.34) per share, or a total of EUR 13,980,180.48 (19,805,255.68). The dividend shall be paid to shareholders who on the record date for the dividend payment, 2 April 2019, are recorded in the shareholders' register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend payment date be 9 April 2019.

Vantaa, 11 February 2019
Lehto Group Plc
Board of Directors

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Tables

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

IFRS 16 Leases will enter into force on 1 January 2019. As a result, all material leases are recognized in the balance sheet. The adoption of the standard will have no material impact on the company's result and equity, but it will increase the company's assets and liabilities. The most significant effect arises from leases related to leased land plots in inventories with a lease obligation of EUR 156.4 million at the end of 2018.

The IAS 34 requirements have been complied with.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR million	7–12/2018	7–12/2017	1–12/2018	1–12/2017
Net sales	**429.6**	**383.6**	**721.5**	**597.6**
Other operating income	1.1	1.4	3.0	1.5
Changes in inventories	41.7	6.6	107.1	45.0
Capitalised production	4.3	0.8	8.0	0.8
Raw materials and consumables used	-195.9	-143.6	-331.7	-245.1
External services	-201.1	-153.5	-359.5	-251.4
Employee benefit expenses	-41.4	-33.5	-82.9	-61.3
Depreciation and amortisation	-2.1	-1.8	-3.5	-3.2
Other operating expenses	-12.6	-11.0	-24.8	-19.3
Operating profit	**23.5**	**49.1**	**37.2**	**64.6**
Financial income	0.1	0.1	0.2	0.3
Financial expenses	-0.7	-0.4	-1.2	-0.7
Share of associated company profits	0.0	0.0	0.0	0.0
Profit before taxes	**23.0**	**48.8**	**36.2**	**64.2**
Income taxes	-5.0	-9.3	-7.5	-12.6
Profit for the period	**17.9**	**39.5**	**28.7**	**51.6**
Profit attributable to				
Equity holders of the parent company	17.9	39.6	28.7	51.6
Non-controlling interest	0.0	0.0	0.0	0.0
	17.9	**39.5**	**28.7**	**51.6**
Earnings per share calculated from the profit attributable to shareholders of the parent company, EUR per share				
Earnings per share, basic	0.31	0.68	0.49	0.89
Earnings per share, diluted	0.31	0.68	0.49	0.88

CONSOLIDATED BALANCE SHEET, EUR million	DEC 31, 2018	DEC 31, 2017
Assets		
Non-current assets		
Goodwill	4.6	4.6
Other intangible assets	2.2	2.1
Property, plant and equipment	22.9	10.6
Investment properties	0.7	0.8
Investments and receivables	1.1	2.0
Deferred tax assets	6.1	4.9
Non-current assets total	37.7	25.1
Current assets		
Inventories	238.2	132.9
Trade and other receivables	139.0	111.2
Cash and cash equivalents	53.4	68.0
Current assets total	430.6	312.1
Assets total	**468.3**	**337.2**
Equity and liabilities		
Equity		
Share capital	0.1	0.1
Invested non-restricted equity reserve	69.2	69.2
Retained earnings	64.1	29.6
Profit for the financial period	28.7	51.6
Equity attributable to shareholders of the parent company	162.1	150.4
Non-controlling interest	0.3	0.3
Equity total	162.4	150.7
Non-current liabilities		
Deferred tax liabilities	0.7	0.4
Provisions	10.4	4.1
Financial liabilities	20.1	11.1
Other non-current liabilities	5.6	2.5
Non-current liabilities total	36.8	18.1
Current liabilities		
Financial liabilities	95.8	25.8
Advances received	88.3	69.3
Trade and other payables	85.1	73.2
Current liabilities total	269.2	168.3
Liabilities total	305.9	186.4
Equity and liabilities total	**468.3**	**337.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, EUR million	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY					
	Share capital	Invested non-restricted equity reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2017	**0.1**	**69.2**	**41.6**	**110.8**	**0.0**	**110.9**
Comprehensive income						
Profit for the financial period			51.6	**51.6**	0.0	**51.6**
Total comprehensive income			***51.6***	***51.6***	***0.0***	***51.6***
Transactions with equity holders						
Distribution of dividends			-12.8	**-12.8**		**-12.8**
Share-based compensation			0.9	**0.9**		**0.9**
Other changes			-0.1	**-0.1**	0.3	**0.2**
Transactions with equity holders, total			***-12.0***	***-12.0***	***0.3***	***-11.8***
Equity at 31 December 2017	**0.1**	**69.2**	**81.2**	**150.4**	**0.3**	**150.7**
Equity at 1 January 2018	**0.1**	**69.2**	**81.2**	**150.4**	**0.3**	**150.7**
Effect of IFRS 2 standard amendment			2.3	**2.3**		**2.3**
Adjusted equity at 1 January 2018	**0.1**	**69.2**	**83.5**	**152.7**	**0.3**	**153.0**
Comprehensive income						
Profit for the financial period			28.7	**28.7**	0.0	**28.7**
Total comprehensive income			***28.7***	***28.7***	***0.0***	***28.7***
Transactions with equity holders						
Distribution of dividends			-19.8	**-19.8**		**-19.8**
Share-based compensation			0.5	**0.5**		**0.5**
Other changes			-0.1	**-0.1**	0.0	**-0.1**
Transactions with equity holders, total			***-19.4***	***-19.4***	***0.0***	***-19.4***
Equity at 31 December 2018	**0.1**	**69.2**	**92.8**	**162.1**	**0.3**	**162.4**

CONSOLIDATED CASH FLOW STATEMENT, EUR million	1–12/2018	1–12/2017
Cash flow from operating activities		
Profit for the financial period	28.7	51.6
Adjustments:		
Non-cash items	4.9	0.7
Depreciation and amortisation	3.5	3.2
Financial income and expenses	0.1	0.4
Capital gains	0.4	0.0
Income taxes	7.5	12.6
Changes in working capital:		
Change in trade and other receivables	-26.2	-44.1
Change in inventories	-105.3	-42.0
Change in trade and other payables	78.7	30.6
Interest paid and other financial expenses	-1.0	-0.8
Financial income received	0.2	0.3
Income taxes paid	-9.8	-15.3
Net cash from operating activities	**-18.3**	**-2.8**
Cash flow from investments		
Investment in property, plant and equipment	-14.6	-4.1
Investment in other intangible assets	-1.3	-0.4
Acquisition of subsidiaries [1)]	0.0	-1.1
Sales of associates	0.3	0.0
Proceeds from sale of tangible and intangible assets	0.0	0.0
Proceeds from other investments	0.2	0.0
Loans granted	0.0	-0.9
Repayments of loan receivables	1.7	6.2
Dividends received	0.0	0.0
Net cash from investments	**-13.7**	**-0.3**
Cash flow from financing		
Loans drawn	109.3	51.7
Loans repaid	-72.0	-34.9
Acquisition of non-controlling interest [1)]	0.0	-0.9
Dividends paid	-19.8	-12.8
Paid share issue	0.0	0.3
Net cash used in financing activities	**17.5**	**3.4**
Change in cash and cash equivalents (+/-)	*-14.5*	*0.3*
Cash and cash equivalents at the beginning of the year	68.0	67.7
Effects of exchange rate change	-0.1	0.0
Cash and cash equivalents at the end of the period	53.4	68.0

[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

KEY FIGURES	7–12/2018	7–12/2017	1–12/2018	1–12/2017
Net sales, EUR million	429.6	383.6	721.5	597.6
Net sales, change %	12.0 %	73.3 %	20.7 %	74.5 %
Operating profit, EUR million	23.5	49.1	37.2	64.6
Operating profit, as % of net sales	5.5 %	12.8 %	5.2 %	10.8 %
Profit for the period, EUR million	17.9	39.6	28.7	51.6
Profit for the period, as % of net sales	4.2 %	10.3 %	4.0 %	8.6 %
Equity ratio, %			42.7 %	56.3 %
Gearing, %			21.3 %	11.7 %
Net gearing ratio, %			38.5 %	-20.6 %
Return on equity, ROE, %			18.3 %	38.8 %
Return on investment, ROI, %			16.1 %	40.6 %
Order backlog, EUR million			655.6	551.2
Personnel during the period, average			1,457	1,013
Personnel at the end of period			1,552	1,184
Gross expenditure on assets, EUR million			15.9	4.5
Equity / share, EUR			2.78	2.58
Earnings per share, EUR, basic	0.31	0.68	0.49	0.89
Earnings per share, EUR, diluted	0.31	0.68	0.49	0.88
Average number of shares during the period, basic	58,250,752	58,250,752	58,250,752	58,250,752
Average number of shares during the period, diluted	58,380,598	58,432,315	58,380,598	58,432,315
Number of shares at the end of the period	58,250,752	58,250,752	58,250,752	58,250,752
Market value of share at the end of period, EUR million			247.6	763.1
Share prices, EUR				
Highest price, EUR			14.18	14.26
Lowest price, EUR			4.02	9.79
Average price, EUR			9.13	11.76
Price at the end of period, EUR			4.25	13.10
Share turnover, shares			42,861,908	16,334,696
Share turnover out of average number of shares, %			73.6 %	28.0 %
Dividend / share, EUR [1]			0.24	0.34
Dividend payout ratio, % [1]			48.7 %	38.4 %
Effective dividend yield % [1]			5.6 %	2.7 %
Price / Earnings			8.64	14.33

[1] For year 2018 dividend proposal

LIABILITIES AND GUARANTEES

EUR million	Dec 31, 2018	Dec 31, 2017
Loans covered by pledges on assets		
Loans from financial institutions	65.8	28.2
Debts on shares in unsold housing and real estate company shares	48.9	7.3
Instalment debts	0.8	1.1
Total	**115.6**	**36.6**
Guarantees		
Corporate mortgages	1.8	1.8
Real-estate mortgages	4.9	4.6
Pledges	65.4	12.9
Absolute guarantees	0.3	0.3
Total	**72.4**	**19.6**
Contract guarantees		
Production guarantees	49.9	33.8
Warranty guarantees	14.3	10.4
RS guarantees	36.8	29.3
Payment guarantees	10.5	14.2
Rent guarantees		0.0
Total	**111.5**	**87.7**
Rent liabilities		
Within one year		
Premises rents	1.5	2.0
Rents related to plots in inventories	156.4	N/A
Other rents	0.7	0.5
Within 1-5 years		
Premises rents	4.5	4.3
Other rents	0.8	0.8
Over 5 years		
Premises rents	0.2	0.7
Other rents	0.1	
Total	**164.1**	**8.3**
Contract guarantees		
Production guarantees	3.2	1.4

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	1–12/2018	1–12/2017
Revenue recognised over time	463.6	459.0
Revenue recognised upon delivery	257.4	137.8
Rental income	0.5	0.7
Total	**721.5**	**597.6**

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.

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 1–12/2018	Purchases 1–12/2018	Sales 1–12/2017	Purchases 1–12/2017
Associated companies				0.0
Key personnel and their controlled entities	56.3	5.2	77.5	3.9
Total	**56.3**	**5.2**	**77.5**	**3.9**

EUR million	Receivables Dec 31, 2018	Liabilities Dec 31, 2018	Receivables Dec 31,2017	Liabilities Dec 31, 2017
Associated companies			0.0	
Key personnel and their controlled entities	7.8	0.1	2.2	0.2
Total	**7.8**	**0.1**	**2.2**	**0.2**

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.