



LEHTO

ECONOMICALLY DRIVEN CONSTRUCTION

LEHTO GROUP PLC BUSINESS REVIEW 1 JANUARY–30 SEPTEMBER 2016

**Net sales up by 30.7% – operating
profit was 10.5% of net sales**



This is not an interim report as specified in the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act and discloses business reviews for the first three and nine month periods of the year, in which key information regarding the company's financial situation and development will be presented

The financial information presented in this business review is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.

Financial development January–September 2016

GROUP	7–9/2016	7–9/2015	1–9/2016	1–9/2015	1–12/2015
Net sales, EUR million	91.6	80.4	232.1	177.6	275.6
Change in net sales, %	13.9%	86.7%	30.7%	52.9%	61.1%
Operating profit, EUR million	10.4	10.6	24.3	16.7	27.2
Operating profit, % of net sales	11.3%	13.2%	10.5%	9.4%	9.9%
Profit for the period, EUR million	8.3	8.5	19.3	12.7	21.2
Order backlog at period end, EUR million	258.5	176.0	258.5	176.0	195.0
Earnings per share, EUR	0.16	0.20	0.37	0.29	0.52
Cash and other liquid assets, EUR million	66.6	27.7	66.6	27.7	24.6
Interest-bearing liabilities, EUR million	22.1	19.7	22.1	19.7	17.0
Equity ratio, %	61.5%	33.8%	61.5%	33.8%	37.2%
Net gearing ratio, %	-43.3%	-27.6%	-43.3%	-27.6%	-22.9%

Compared to the corresponding period of the previous year, Lehto Group's net sales for January–September grew by 30.7%, to EUR 232.1 (177.6) million. Operating profit was EUR 24.3 (16.7) million, or 10.5% (9.4%) of net sales. Net sales grew in the Business Premises, Housing, and Social Care and Educational Premises service areas but declined in the Building Renovation service area.

NET SALES BY SERVICE AREA

	1–9/2016	1–9/2015	CHANGE	1–12/2015
Business Premises	86.4	74.5	16.0%	109.8
Housing	84.8	40.9	107.3%	69.5
Social Care and Educational Premises	40.3	26.2	53.4%	38.4
Building Renovation	20.6	35.9	-42.6%	58.0
Total	232.1	177.6	30.7%	275.6

BUSINESS PREMISES

Net sales in the Business Premises service area grew by 16.0% in January–September. This was attributable to an increase in both the number and value of projects. In January–September, Lehto Group completed a total of 17 business premises. 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 is expected to be signed in 2017. The project involves uncertainties which are typical of property development.

Lehto has made certain preparations regarding the Barents Center under planning in Haparanda, Sweden. In accordance with the contract with the Swedish client, 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.

HOUSING

The Housing service area more than doubled its net sales year on year. During the period, Lehto completed 16 residential projects involving a total of 603 apartments. Altogether 691 apartments were sold in January–September. At the end of the period, 876 new apartments were under construction, of which 157 had not yet been sold. The number of unsold finished apartments remained small, totalling seven at the end of the review period. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area.

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. In total, it is estimated that the project will be completed in January 2019. The total value of the construction contract is around EUR 25.3 million, excluding value-added tax.

SOCIAL CARE AND EDUCATIONAL PREMISES

Lehto Group also experienced strong growth in its Social Care and Educational Premises service area, the net sales of which increased by 53.4%. During the review period, the company completed 17 new care homes that were delivered to service providers involved in the care of elderly, disabled and mental-health customers.

BUILDING RENOVATION

In the Building Renovation service area, net sales from pipeline renovations increased but net sales from developer contracting-based renovation projects decreased. Contrary to January–September 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. At the end of the period, Lehto had two developer contracting projects ongoing. These are expected to be completed in 2017. In the Building Renovation service area, the number of unsold, finished apartments totalled seven at the end of the review period.

ORDER BACKLOG

Lehto Group's order backlog amounted to EUR 258.5 million (30 June 2016: EUR 237.2 million). This was mainly attributable to the EUR 50 million increase in the order backlog of the Housing service area. Meanwhile, the order backlog of the other service areas, decreased slightly. Most of the order backlog in the Housing service area consists of blocks of flats under construction in the Helsinki Metropolitan Area. A construction project is included in the order book once the project contract has been signed or, in the case of developer contracting projects, once the decision to begin construction has been made and the contract has been signed.

Outlook for 2016

On 11 November 2016, Lehto Group further specified its financial outlook for 2016.

In 2016, it is estimated that growth in net sales will be around 20–25% compared to 2015 (EUR 275.6 million in 2015) and operating profit will be around 10–11% of net sales.

Key factors affecting net sales and operating profit include recognition based on the delivery of developer contracting housing production; as well as the number of apartments sold, the start-up and sale of social care and educational premises, and other business premises projects.

Balance sheet and financing

GROUP BALANCE SHEET, EUR MILLION	30 Sep. 2016	30 Sep. 2015	31 Dec. 2015
Non-current assets	17.9	14.6	14.6
Current assets			
Inventories	72.1	58.6	51.3
Current receivables	84.4	40.0	47.2
Cash and cash equivalents	66.6	27.7	24.6
Assets held for sale	0.0	1.9	0.0
Total assets	241.0	142.6	137.6
Equity	102.9	28.8	33.4
Financial liabilities	22.1	19.7	17.0
Prepayment received	73.7	57.4	47.9
Other payables	42.4	35.7	39.3
Liabilities associated with assets held for sale	0.0	1.0	0.0
Total equity and liabilities	241.0	142.6	137.6

The Group's financial position strengthened, mainly due to its successful listing on the stock exchange. At the end of the period, equity totalled EUR 102.9 million (31 Dec. 2015: EUR 33.4 million), net gearing was -43.3% (31 Dec. 2015: -22.9%) and the equity ratio was 61.5% (31 Dec. 2015: 37.2%).

At the end of the period, Lehto Group's cash and cash equivalents totalled EUR 66.6 million and interest-bearing liabilities totalled EUR 22.1 million.

Personnel

The average number of personnel during the review period was 510. The number of personnel at period end was 594 (31 Dec. 2015: 423). About 52% of the Group's personnel are salaried employees and 48% employees working at construction sites.

Significant events after the reporting period

Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco by an agreement signed on 3 October 2016. 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.

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 time of the acquisition, Wareco employed 70 people. In 2015, its net sales totalled EUR 28.7 million and its operating profit was EUR 0.7 million. The purchase price of the shares on a debt and cash free basis was around EUR 2.6 million. The exact purchase price will be confirmed after the interim financial statements of the time of transaction have been finalised. Lehto will also pay an additional purchase price on the basis of the profit that Wareco will achieve in 2016, 2017 and 2018. The purchase price will be paid in cash from Lehto's cash reserves. The acquisition will not have a significant effect on the profit or the financial position of Lehto in 2016.

Kempele, 17 November 2016

Lehto Group Plc
Board of Directors

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LEHTO GROUP IN BRIEF

Lehto Group is a Finnish construction and real estate company focusing on economically driven construction. The company's mission is to be the innovator of the construction sector. The Company has divided its operations into four service areas: Business Premises, Housing, Social Care and Educational Premises and Building Renovation. Lehto Group currently operates in Finland and is geographically concentrated in growth centres, which account for a significant part of its construction volume. The company's headquarters are located in Kempele. In 2015, the company's net sales were approximately EUR 276 million and it had 423 employees at the end of the year.