

Lehto Group Plc's financial statement bulletin 1 January – 31 December 2017

Net sales grew by 64.2% from the previous year to EUR 594.1 million. Operating profit was EUR 61.5 million, or 10.4% of net sales.



This report has been prepared in accordance with the IAS 34 standard and is unaudited. The company complies with half-yearly reporting according to the Finnish Securities Markets Act. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.

Summary 2017

GROUP	1-12/2017	1-12/2016	10-12/2017	10-12/2016
Net sales, EUR million	594.1	361.8	226.9	129.7
Change in net sales, %	64.2%	31.3%	74.9%	32.3%
Operating profit, EUR million	61.5	40.4	28.1	16.0
Operating profit, % of net sales	10.4%	11.2%	12.4%	12.3%
Profit for the period, EUR million	49.2	31.9	22.3	12.6
Order backlog at period end, EUR million	522.2	309.1	522.2	309.1
Earnings per share, EUR	0.84	0.59	0.38	0.22
Cash and other liquid assets, EUR million	68.0	67.7	68.0	67.7
Interest-bearing liabilities, EUR million	36.9	16.4	36.9	16.4
Equity ratio, %	56.6%	60.4%	56.6%	60.4%
Net gearing ratio, %	-20.3%	-44.2%	-20.3%	-44.2%

- Net sales grew in 2017 by 64.2% (31.3%) to EUR 594.1 (361.8) million. All service areas grew, with the greatest growth in euros seen in the Housing service area.
- Operating profit was EUR 61.5 (40.4) million, or 10.4% (11.2%) of net sales.
- Lehto established a subsidiary in Sweden. The subsidiary's financial significance is currently minor.
- Factory production capacity was increased. A new factory is under construction.
- The Board proposes a dividend of EUR 0.34 per share

NET SALES BY SERVICE AREA	1-12/2017	1-12/2016	CHANGE
Business Premises	181,2	129,5	39,9%
Housing	232,6	136,0	71,1%
Social Care and Educational Premises	105,3	62,1	69,4%
Building Renovation	75,1	34,2	119,5%
Total	594,1	361,8	64,2%

Order backlog at the end of the year was EUR 522.2 million (EUR 309.1 million in December 31, 2016). Major part of the backlog is expected to be recognized as revenue during year 2018.

A construction project is included in the order backlog when the construction agreement has been signed. Own developed housing projects are included in the order backlog when the construction decision has been made and the construction contract agreement with the limited liability housing company has been signed.

July–December 2017

Net sales in the second half of the year were EUR 362.7 million (EUR 221.3 million in July–December 2016). Net sales in all service areas were higher in the second half of the year than in the first half. This is due to business growth during the year and the spike in the completion of developer contracting housing projects at the end of the year.

As in the previous year, net sales of the last quarter were the highest of the year. Net sales grew by 74.9% to EUR 226.9 million (EUR 129.7 million in 4Q 2017).

In August, Lehto established a subsidiary, Lehto Sverige AB, in Sweden. Lehto Group Oyj owns 88% of the company and four Swedish minority shareholders own 12%. The minority shareholders work in the company.

NET SALES AND OPERATING PROFIT, MEUR	1Q 2017	2Q 2017	3Q 2017	4Q 2017	2017 TOTAL
Net Sales					
Business Premises	34.2	38.4	35.4	73.2	181.2
Housing	10.7	66.5	54.6	100.8	232.6
Social Care and Educational Premises	19.3	29.8	28.5	27.7	105.3
Building Renovation	16.5	16.1	17.3	25.2	75.1
Net Sales Total	80.6	150.8	135.8	226.9	594.1
Operating Profit	6.8	13.1	13.5	28.1	61.5
Operating Profit, % of Net Sales	8.5%	8.7%	10.0%	12.4%	10.4%

Lehto's CEO Hannu Lehto:



"2017 was again a year of exceptionally strong growth for Lehto. According to the Confederation of Finnish Construction Industries RT, the construction industry in Finland grew by about 4%, whereas our growth rate was 64.2%. Our organisation deserves special thanks for excellent and responsible work during such rapid growth. All parts of the organisation have put in a lot of hard effort.

Due to the growth, the capacity of our factory manufacturing also reached its limits. We increased capacity by acquiring an element manufacturing company in Ii, in northern Finland, and by leasing new business premises in Oulainen, where most of our factory production is located. At the end of the year, we started to build a new approximately 9,000 m² factory in Oulainen. We estimate that the factory will be in use in late summer 2018.

The growth was also reflected in the number of employees. During the year, we hired 437 new employees, some 200 of whom were employed in factory operations. At the end of the year, we had 1,184 employees of whom 312 worked in factory operations.

In autumn 2017, we established a new subsidiary in Sweden. Initially, we will focus on the sales, development and construction of apartments and social care and educational premises, but we also see many opportunities in building business premises. It takes time to develop operations.

We believe that our operating model will continue to be successful in the future and that we can offer our customers high-quality, competitive solutions. We estimate that the productivity of construction will improve in the medium term as new operating models and technologies are adopted. In line with our mission – to be an innovator in the construction sector – we seek to continue reforms and improve the long-term development of competitiveness and productivity.

We see digitalisation and the utilisation of information modelling as an important competitive factor. I believe that advances in digitalisation will substantially change construction-related processes and even the end product. We plan to continue investments in exploiting the opportunities offered by digitalisation."

Outlook for 2018

Lehto estimates that the Group's net sales for 2018 will grow by 20-30% from 2017 (EUR 594.1 million in 2017) and operating profit is expected to be above 10% of net sales (2017: 10.4%). The accrual of net sales and operating profit is expected to concentrate at the end of the year.

The outlook is based on the information available to the company on the progress of ongoing construction projects and the company's estimate of construction projects to be started and sold in 2018.

The most significant risks related to net sales and operating profit are delays in the start of business projects currently at the negotiation phase, higher than expected implementation costs of renovation contracts, and a decline in the demand for housing. For more information on the risks, see the "Risks and uncertainties".

Video presentation of the financial statement

Lehto will publish a video presentation of its 2017 financial statement on its website on Thursday, 15 February 2018 at 08:00 a.m. (EET) at www.lehto.fi/en/investors/. The presentation will also be available on the website after this.

Business environment and business development in 2017

In 2017, growth in construction continued in Finland for the third year running. According to the estimate made by the Confederation of Finnish Construction Industries RT in October 2017, the construction industry grew by about 4% in Finland in 2017, which was about the same as in 2016. The construction trends group led by the Ministry of Finance estimated in September 2017 that total construction output would grow by 3–6%. The growth is primarily attributable to new construction; the growth rate of renovation construction is estimated to have slowed down somewhat from 2016.

The increase in new construction was driven particularly by the strong growth in housing construction. According to the estimate of the Confederation of Finnish Construction Industries RT, there were around 43,000 housing starts in 2017, which is clearly higher than the historical average of some 31,000 apartments. The main focus of construction is in apartments in blocks of flats. The construction of business premises remained about the same in 2017 as in the previous year.

Growth in the construction market has increased competition. The availability of skilled labour, in particular, has slightly delayed the start of new projects. The most severe shortage applies to experienced supervisors, project managers and designers. Lehto has partly been able to manage the shortage of labour by building modules and elements in its own factories, which has reduced the need for labour at construction sites.

According to the estimate of the Confederation of Finnish Construction Industries RT and the construction industry working group led by the Ministry of Finance, the rate of growth in construction will slow down slightly in 2018 and new construction will increasingly be concentrated in large growth areas. Seventy per cent of residential building permits are already granted to projects in the four largest regions, for example, and about 70–80 per cent of all office buildings are being built in the Helsinki Metropolitan area. The new offices will be located with good access to public transport.

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 by using structural and spatial solutions developed or tried and tested by Lehto. The service area serves local, national and international customers.

Most of the business in the Business Premises service area are implemented as turnkey projects, where Lehto assumes overall responsibility for both planning 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 39.9% year-on-year to EUR 181.2 (129.5) million in 2017. A total of 30 properties were completed during the period, including the Prisma Centre in Nokia, the commercial centre in the Seppälä central square in Jyväskylä and shopping centre Pikkulaiva in Espoo. Lehto continued the development project of the Lippulaiva shopping centre, in Espoonlahti, together with Citycon Oyj and designers. In October, Lehto and Citycon signed the main contract to complete the development phase of the shopping centre. According to the main contract, Lehto and Citycon will continue to develop and plan the project with the aim of signing a final construction contract agreement for the shopping centre and a housing contract for the construction of the residential units by 31 March 2018. The project involves uncertainties that are typical of property development projects.

In May, Lehto signed a contract to build two separate commercial properties in the Jyväskylä region. One of the properties will be located in the Seppälä area of Jyväskylä and is about 10,000 m² in size. Tenants of the property include Gigantti, Leo's Leikkimaa and a medical centre. The other, approximately 2,500 m² property is located in Laukaa and has K-Supermarket as main tenant. The total value of the contracts is about EUR 20 million. The properties were completed at the end of November.

In August, Lehto started to build a new commercial centre of approximately 11,800 m² in the centre of Kalajoki. The ground floor of the commercial centre will house business premises, while the first floor will contain premises for the city library as well as cinema and cultural facilities and the related services. The client is the city of Kalajoki and a group of local private investors.

In August, Lehto signed a contract with global logistics company DSV on the construction of a logistics centre in Päiväkumpu, Vantaa. The project comprises the construction of a logistics centre of around 50,000 m², a terminal building of around 10,000 m² and an office building of around 4,000 m² in size. Lehto estimates that the project will be completed during 2018.

In September, Lehto signed a contract with Danish logistics company Frode Laursen for the construction of a new logistics centre in Kerava. The area of the logistics centre will be around 27,000 m² and it is expected to be completed in August 2018.

In December, the City of Jyväskylä chose a consortium consisting of Lehto, Fennia Asset Management Ltd and a group of potential smaller investors to continue negotiations for the implementation of the Hippos2020 project. The goal of the project is to build the largest sports and wellbeing centre of expertise in the Nordic countries in the Hippos area in Jyväskylä. The centre would comprise a total area of 100,000 m² of new facilities. The final construction decision is expected in spring 2018, when the final terms of the concession agreement signed with the city as well as the final project plans, cost estimates, contracts, land use and other technical agreements, financing and shareholder agreements as well as the conditions for the city to purchase bookings for sports facilities will be clear.

The order backlog of the Business Premises service area grew during the review period and was EUR 127.3 million at year end (EUR 75.5 million on 31 December 2016). The order backlog does not include the possible revenue stream from the Lippulaiva and Hippos2020 projects.

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. The majority of the properties built by the service area are 1-2-storey wooden buildings.

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 69.4% from the previous year to EUR 105.3 (62.1) million in 2017. Nursing homes for the elderly account for most of the net sales. Net sales grew for both new and existing accounts. A total of 29 nursing homes were completed during the period, and 25 nursing homes were under construction at the end of the year. Two new day care centres and one school were completed during the review period, and one day care centre and one school were under construction at year end.

In April, the municipality of Liminka chose Lehto to build a new school for 450 pupils in Ojanperänkangas based on competitive tendering. The contract specifies a five-year warranty for the new school instead of the prevailing construction-industry standard of two years. The contract also included Lehto's maintenance service.

In December, Lehto won a tender to build three modular day care centres in Sweden in the municipality of Botkyrka. Lehto will build the day care centre modules in Finland and deliver them to Sweden. The day care centres have two floors and are designed to accommodate a total of 180 children.

In December, Lehto signed a framework agreement with eQ Hoivakiinteistöt for the construction and sales of 10 care sector properties in different parts of Finland. The total value of the framework agreement is approximately EUR 32 million, with additional option properties. Lehto will build the properties and sell them to the fund upon completion. The financing for the construction will be arranged by Lehto using both equity and borrowed capital. The users of the premises will be nationwide service providers for elderly care and groups with special needs.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 84.8 million (EUR 57.2 million on 31 December 2016).

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 room 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 71.1% from the previous year to EUR 232.6 (136.0) million. A total of 2,002 apartments were sold in during the period. At the end of the period, 2,029 new apartments were under construction, of which 309 had not yet been sold. There were 12 completed, unsold apartments. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other growth centres. The largest housing developments underway are located in

Kaivoksela, Vantaa, where we are building a total of approximately 550 apartments and Kilo, Espoo, where we are building around 370 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.

The housing construction order backlog at year end was approx. EUR 216.5 million (EUR 132.8 million on 31 December 2016). The housing production order backlog includes the proportion of started developer contracting projects that has not been recognised as net sales.

BUILDING RENOVATION

Lehto's Building Renovation service area carries out pipeline renovations, building renovations and projects in which 1-2 additional floors are built on top of existing buildings. Most projects are implemented as turnkey projects, where Lehto is responsible for the entire contract and assumes overall responsibility for both planning and construction.

Lehto also carries out some 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. The main market for building renovation in Finland is in the Helsinki Metropolitan Area.

Demand for building renovation remained high in the period, and the focus remained on the renovation of residential buildings. Net sales in Building Renovation grew by 119.5% year-on-year to EUR 75.1 (34.2) million. Most of the growth in net sales was due to growth brought about by the acquisition of Rakennus Oy Warecon in October 2016, but net sales were also increased by the growing volume of plumbing renovations and the completion of three developer contracting projects during the review period.

In June, Lehto signed a contract worth around EUR 13 million for the renovation of old premises and their conversion into apartments in Töölö, Helsinki. The property, currently housing an educational institution, will be renovated into modern apartments in 2018-2020. At the same time, new apartments will be added to the property as a complementary building project.

In July, Lehto signed a contract for the conversion of office premises into hotel and accommodation facilities. In December, a contract was signed for a similar project. Both projects are located in Helsinki, and their combined floor area is about 23,000 m².

In September, Lehto signed a contract for the renovation of the A section of Kesko's former head office in Katajanokka, Helsinki. Part of the current office premises (7,500 m²) will be converted into apartments and the grocery shop at street level will be expanded. The renovation includes replacing the brick facing of the facade and insulation as well as renovation of the windows. The project will be implemented using a contract model in which Lehto assumes responsibility for all phases of the renovation under the turn-key principle.

In December, two developer contracting projects were completed: a residential building in central Helsinki and a project to add floors to an existing apartment building in the Myllypuro district of Helsinki. The buildings contain a total of 78 apartments and five commercial premises. At the end of the financial period, two developer contracting renovation projects were under construction.

The order backlog of Building Renovation grew to EUR 93.6 million at year end (EUR 43.5 million on 31 December 2016). Growth in the order backlog is due to the major renovation and conversion contracts signed during the period.

FACTORY PRODUCTION

Lehto manufactures a variety of building modules and elements at its production facilities for its own use. Due to strong business growth, Lehto has expanded and will continue to expand its manufacturing capacity. In May, Lehto acquired the production facilities and installations of the bankrupt Iin Fasadi Oy in Northern Finland. The goal of this acquisition was to ensure the availability of wall elements, particularly for projects in the Social Care and Educational Premises service area.

In addition to the factory acquisition, capacity will be increased by acquiring or building new production facilities, improving production processes and increasing the utilisation rate of production facilities. In December, Lehto started building a new factory of about 9,000 m² in Oulainen. The plan is to concentrate logistics and warehouse functions and the manufacturing of bathroom modules, kitchen furniture and other fixtures and fittings in the factory. The total value of the investment is some EUR 7.5 million. It is estimated that the factory will be ready for production in August 2018.

Significant events during the financial period

On **17 February 2017** Lehto announced the new composition of its executive board as of 1 March 2017. The Group executive board is the following: Hannu Lehto, CEO; Veli-Pekka Paloranta, CFO; Asko Myllymäki, CCO; Pasi Kokko, EVP, Housing; Jaakko Heikkilä, EVP, Business Premises; Tuomo Mertaniemi, EVP, Social Care and Educational Premises; Pekka Lindeman, EVP, Building Renovation; and Timo Reiniluoto, EVP, Business Support Services.

On **24 April 2017**, Lehto announced that its significant shareholders are exploring options for reducing their ownership in Lehto Group Plc. Shareholders representing 69.7 per cent of the outstanding shares in the company had informed the company that they had mandated OP Corporate Bank and Pareto Securities to jointly explore options for reducing their ownership in the company in one or several stages. Lehto believed that the planned share sale might improve the liquidity of the company's shares.

The intention of the shareholders was to sell no more than ca. 30 per cent of their ownership in the company with the exception of the company's CEO Hannu Lehto, who had agreed to reduce his ownership (held through Lehto Invest Oy) by not more than 5.0 per cent. The shareholders would thus remain significant shareholders in Lehto after any potential transactions.

It was announced that the amount of shares to be potentially sold would depend on the demand and price achieved, but would not, in total, represent more than 7,200,000 shares in the company or 12.4 per cent of all the company's shares. The shareholders had agreed not to sell the remainder of their holdings in Lehto during a 180-day period if the transaction(s) to reduce their ownership were completed.

On **24 May 2017**, Lehto updated the financial outlook for the year 2017. According to the updated outlook, the Group's net sales for 2017 is expected to grow by 40–50 % from the previous year (net sales in 2016: EUR 361.8 million) and operating profit is expected to be above 10 % of net sales (2016: 11.2 %). The reason for the improved outlook was the better than estimated progress in the Business Premises, Housing and Social Care and Educational Premises service areas. According to the previously published outlook, Lehto's net sales in 2017 were expected to grow by at least 30 % (growth in net sales in 2016 was 31.3 %), and operating profit was expected to exceed 10 % (2016: 11.2 %) of net sales.

On **31 May 2017**, Lehto announced that its significant shareholders intend to sell up to 4,971,845 shares in the company, corresponding to approximately 8.5 per cent of all the outstanding shares of the company, using an accelerated book-building process.

On **1 June 2017**, Lehto announced that its significant shareholders had sold a total of 4,971,845 shares in the company, corresponding to an approximate maximum of 8.5 percent of all the shares in the company. Lehto announced that the company's CEO Hannu Lehto sold 0.5 per cent (100,000 shares) of the shares owned by him through Lehto Invest Oy. The company also announced that after the share sale, the shareholders who participated in the sale continue to own approximately 61.2 per cent of all the shares and votes in the company and that the shareholders had agreed not to sell the remainder of their holdings in Lehto during a 180-day period.

On **1 June 2017**, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from Asko Myllymäki. According to the notification, Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 31 May 2017. In connection with the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell below the 10 per cent threshold to 8.25 per cent.

On **14 August 2017**, Lehto Group Plc signed an agreement for establishing a subsidiary, Lehto Sverige AB, in Sweden. Lehto Group Oy owns 88% of the company and four Swedish minority shareholders own 12%.

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

On **24 November 2017**, 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 2018. The members of the Nomination Committee are Hannu Lehto, Asko Myllymäki and Mikko Kinnunen.

On **22 December 2017**, Lehto updated the financial outlook for the year 2017. Net sales were estimated to grow over 55 % and operating profit was expected to exceed 10 % of net sales. The previously announced outlook estimated net sales to grow by 40–50%.

Balance sheet and financing

The Group's financial standing remained excellent. At the end of the financial period, the equity ratio was 56.6% (31 Dec. 2016: 60.4%) and net gearing was -20.3% (-44.2%).

CONSOLIDATED BALANCE SHEET, EUR MILLION	31 DEC 2017	31 DEC 2016
Non-current assets	24.5	21.5
Current assets		
Inventories	119.9	77.5
Current receivables	127.1	92.0
Cash and cash equivalents	68.0	67.7
Total assets	339.4	258.7
Equity	153.0	115.6
Financial liabilities	36.9	16.6
Advances received	69.2	67.3
Other payables	80.2	59.2
Total equity and liabilities	339.4	258.7

EQUITY AND LIABILITIES

Equity grew to EUR 153.0 million (EUR 115.6 million on 31 December 2016). The increase in equity is due to positive profit development. The amount of equity was reduced by a dividend payout of EUR 12.8 million in April, representing 40.2% of the profit of the 1 January-31 December 2016 financial period.

Financial liabilities grew to EUR 36.9 (16.6) million. Loans were drawn mainly for acquiring plots for the Housing service area 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 69.2 (67.3) 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 80.2 (59.2) million. Other liabilities include trade payables of EUR 38.9 million and VAT debt of EUR 13.2 million.

ASSETS

Non-current assets amounted to EUR 24.5 million at the end of the review period (EUR 21.5 million on 31 December 2016). Non-current assets include goodwill of EUR 4.6 million, EUR 5.0 million in factory buildings and EUR 4.4 million in machinery and equipment.

Inventories grew to EUR 119.9 (77.5) million. The growth was attributable to strong business volume growth, and most of the inventories are related to costs accrued from incomplete construction projects.

Current receivables grew to EUR 127.1 (92.0) million, including trade receivables of EUR 65.9 (40.2) and percentage-of-completion receivables of EUR 55.0 (41.7) million. The growth in receivables is related to the increased business volume.

CASH FLOW STATEMENT, EUR MILLION

	1–12/2017	1–12/2016
Cash flow from operating activities	-2.8	8.3
Cash flow from investments	-0.3	-14.1
Cash flow from financing	3.4	48.9
Change in cash and cash equivalents	0.3	43.1

Cash and cash equivalents remained at the same level as in the previous year, amounting to EUR 68.0 (67.7) million. Net cash from operating activities was EUR 2.8 million negative, which includes a negative impact of EUR 52.4 million due to the growth in net working capital.

Net working capital grew relatively more than net sales. The main factors attributing net working capital growth was the increase in accounts receivable and 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. Growth in accounts receivable is mainly due to high amount of project deliveries at the end of the year.

Net cash flow from investments was EUR -0.3 million, including EUR 4.1 million investments in tangible assets mainly relating to factory production. Investments in intangible rights amounted to EUR 0.4 million. Cash flow from investment also includes additional purchase prices of EUR 0.8 million paid during the period for minority interests in subsidiaries and a EUR 6.2 million repayment of loan receivables related to construction projects carried out with partners.

Net cash flow from financing was EUR 3.4 million positive. A total of EUR 51.7 million was drawn in loans and EUR 34.9 million was repaid. Cash flow from financing also includes cash expenses of EUR 12.8 million due to dividends paid.

At the end of the financial period the Group had credit limits of EUR 5.0 million available with Danske Bank and EUR 3.7 million with Nordea 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

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 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.

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 1,013 (566). The number of personnel at year end was 1,184 (747). About 49% (52%) of the Group's personnel are salaried employees and 51% (48%) employees working at construction sites.

Lehto's personnel grew by 437 in 2017. Most of the new employees, approximately 200 persons, were employed in Lehto's factories in Oulainen, Humpkala, Oulu and Ii.

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 concepts is part of continuing operations, and the related costs are recorded as an expense in the income statement. The most significant development investments during the financial period are related to product design and the development of product factory operations.

Flagging notifications

On 1 June 2017, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from Asko Myllymäki. According to the notification, Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 31 May 2017. In connection with the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell below the 10 per cent threshold to 8.25 per cent.

Significant events after the reporting period

No such 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.

Annual general meeting and annual report

The Annual General Meeting of Lehto Group Plc will be held on Wednesday 11 April 2018 at 1.00 p.m. at the address Yrttipellontie 1, Oulu. The Board of Directors announces the notice of the Annual General Meeting on 1 March 2018. 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 website no later than on Monday 19 March 2018.

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 2017 are EUR 86,936,107.26, of which the operating profit is EUR 12,196,949.24.

The Board of Directors proposes to the Annual General Meeting gathering on 11 April 2018 that the dividend payable on the basis of the balance sheet confirmed for the financial year 1 January - 31 December 2017 be EUR 0.34 per share, or a total of EUR 19,805,255.68. The dividend shall be paid to shareholders who on the record date for the dividend payment, 13 April 2018, are recorded in the shareholders' register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend payment date be 20 April 2018.

Vantaa, 14 February 2018

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

	7-12/2017	7-12/2016	1-12/2017	1-12/2016
Net sales	362.7	221.3	594.1	361.8
Other operating income	1.4	0.2	1.5	0.4
Changes in inventories	20.1	17.3	45.4	23.9
Capitalised production	0.8	0.0	0.8	0.0
Raw materials and consumables used	-143.6	-84.4	-245.1	-133.1
External services	-153.5	-99.8	-251.4	-162.1
Employee benefit expenses	-33.5	-20.6	-61.3	-36.9
Depreciation and amortisation	-1.8	-1.4	-3.2	-2.2
Other operating expenses	-11.0	-6.2	-19.3	-11.4
Operating profit	41.6	26.4	61.5	40.4
Financial income	0.1	0.2	0.3	0.2
Financial expenses	-0.4	-0.2	-0.7	-0.4
Share of associated company profits	0.0	0.0	0.0	0.0
Profit before taxes	41.3	26.3	61.2	40.1
Income taxes	-7.8	-5.4	-12.0	-8.2
Profit for the period	33.5	21.0	49.2	31.9
Profit attributable to				
Equity holders of the parent company	33.6	21.0	49.2	31.9
Non-controlling interest	0.0	0.0	0.0	0.0
	33.5	21.0	49.2	31.9
Earnings per share calculated from the profit attributable to shareholders of the parent company, EUR per share				
Earnings per share, basic	0.58	0.36	0.84	0.59
Earnings per share, diluted	0.57	0.36	0.84	0.59

CONSOLIDATED BALANCE SHEET, EUR million
DEC 31, 2017
DEC 31, 2016

Assets		
<i>Non-current assets</i>		
Goodwill	4.6	4.6
Other intangible assets	2.1	3.4
Property, plant and equipment	10.6	8.0
Investment properties	0.8	0.8
Investments and receivables	2.0	2.0
Deferred tax assets	4.3	2.7
Non-current assets total	24.5	21.5
<i>Current assets</i>		
Inventories	119.9	77.5
Trade and other receivables	127.1	92.0
Cash and cash equivalents	68.0	67.7
Current assets total	314.9	237.2
Assets total	339.4	258.7
Equity and liabilities		
<i>Equity</i>		
Share capital	0.1	0.1
Invested non-restricted equity reserve	69.2	69.2
Retained earnings	34.3	14.4
Profit for the financial period	49.2	31.9
Equity attributable to shareholders of the parent company	152.7	115.6
Non-controlling interest	0.3	0.0
Equity total	153.0	115.6
<i>Non-current liabilities</i>		
Deferred tax liabilities	0.4	0.4
Provisions	4.1	3.0
Financial liabilities	11.1	4.1
Other non-current liabilities	2.5	3.6
Non-current liabilities total	18.1	11.2
<i>Current liabilities</i>		
Financial liabilities	25.8	12.5
Advances received	69.2	67.3
Trade and other payables	73.2	52.1
Current liabilities total	168.3	131.9
Liabilities total	186.4	143.1
Equity and liabilities total	339.4	258.7

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE
 PARENT COMPANY

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

	Share capital	Invested non-restricted equity reserve	Equity loans	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2016	0.1	5.8	5.0	22.4	33.4	0.0	33.4
Comprehensive income							
Profit 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
Interest paid to equity loan				-0.1	-0.1		-0.1
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
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 Dec 2016	0.1	69.2		46.3	115.6	0.0	115.6
Equity at 1 January 2017	0.1	69.2		46.3	115.6	0.0	115.6
Comprehensive income							
Profit for the financial period				49.2	49.2	0.0	49.3
Total comprehensive income				49.2	49.2	0.0	49.3
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	0.2	0.2
Transactions with equity holders, total				-12.0	-12.0	0.2	-11.8
Equity at 31 Dec 2017	0.1	69.2		83.5	152.7	0.3	153.0

CONSOLIDATED CASH FLOW STATEMENT, EUR million
1–12/2017
1–12/2016

Cash flow from operating activities		
Profit for the financial period	49.2	31.9
<i>Adjustments:</i>		
Non-cash items	0.7	1.8
Depreciation and amortisation	3.2	2.2
Financial income and expenses	0.4	0.2
Capital gains	0.0	-0.1
Income taxes	12.0	8.2
<i>Changes in working capital:</i>		
Change in trade and other receivables	-40.6	-32.9
Change in inventories	-42.4	-25.3
Change in trade and other payables	30.6	30.3
Interest paid and other financial expenses	-0.8	-0.4
Financial income received	0.3	0.2
Income taxes paid	-15.3	-7.9
Net cash from operating activities	-2.8	8.3
Cash flow from investments		
Investment in property, plant and equipment	-4.1	-7.4
Investment in other intangible assets	-0.4	-0.1
Acquisition of subsidiaries ¹⁾	-1.1	-4.5
Proceeds from sale of tangible and intangible assets	0.0	0.1
Purchases of available-for-sale financial assets and proceeds	0.0	0.1
Loans granted	-0.9	-2.3
Repayments of loan receivables	6.2	0.1
Net cash from investments	-0.3	-14.1
Cash flow from financing		
Loans drawn	51.7	9.1
Loans repaid	-34.9	-9.0
Equity loan interest paid	0.0	-0.2
Acquisition of non-controlling interest ¹⁾	-0.9	-0.9
Dividends paid	-12.8	-7.9
Paid share issue	0.3	60.5
Direct cost related to paid share issue	0.0	-2.7
Net cash used in financing activities	3.4	48.9
<i>Change in cash and cash equivalents (+/-)</i>	<i>0.3</i>	<i>43.1</i>
Cash and cash equivalents at the beginning of the year	67.7	24.6
Effects of exchange rate change	0.0	0.0
Cash and cash equivalents at the end of the period	68.0	67.7

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

	7-12/2017	7-12/2016	1-12/2017	1-12/2016
Net sales, EUR million	362.7	221.3	594.1	361.8
Net sales, change %	63.9%	32.3%	64.2%	31.3%
Operating profit, EUR million	41.6	26.4	61.5	40.4
Operating profit, as % of net sales	11.5%	11.9%	10.4%	11.2%
Profit for the period, EUR million	33.6	21.0	49.2	31.9
Profit for the period, as % of net sales	9.3%	9.5%	8.3%	8.8%
Equity ratio, %			56.6%	60.4%
Gearing, %			11.5%	9.4%
Net gearing ratio, %			-20.3%	-44.2%
Return on equity, ROE, %			36.6%	42.8%
Return on investment, ROI, %			38.4%	44.5%
Order backlog, EUR million			522.2	309.1
Personnel during the period, average			1,013	566
Personnel at the end of period			1,184	747
Gross expenditure on assets, EUR million			4.5	7.6
Equity / share, EUR			2.62	1.98
Earnings per share, EUR, basic	0.58	0.36	0.84	0.59
Earnings per share, EUR, diluted	0.57	0.36	0.84	0.59
Average number of shares during the period, basic	58,250,752	58,250,752	58,250,752	54,067,297
Average number of shares during the period, diluted	58,432,315	58,263,729	58,432,315	54,073,804
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			737.5	593.6
Share prices, EUR				
Highest price, EUR			14.26	10.19
Lowest price, EUR			9.79	5.52
Average price, EUR			12.25	8.03
Price at the end of period, EUR			12.66	10.19
Share turnover, shares			16,334,696	11,912,330
Share turnover out of average number of shares, %			28.0%	22.0%
Dividend / share, EUR ¹⁾			0.34	0.22
Dividend payout ratio, % ¹⁾			40.2%	37.3%
Effective dividend yield % ¹⁾			2.7%	2.2%
Price / Earnings			15.03	17.27

¹⁾ Dividend proposal for year 2017

LIABILITIES AND GUARANTEES
EUR million
Dec 31, 2017
Dec 31, 2016

Loans covered by pledges on assets		
Loans from financial institutions	13.5	11.2
Debts on shares in unsold housing and real estate company shares	7.3	3,8
Instalment debts	1.1	1.4
Total	21.9	16.4
Guarantees		
Corporate mortgages	1.8	1.8
Real-estate mortgages	4.6	4.6
Pledges	12.9	5.7
Absolute guarantees	0.3	1.2
Total	19.6	13.3
Contract guarantees		
Production guarantees	33.8	21.7
Warranty guarantees	10.4	9.4
RS guarantees	29.3	19.5
Payment guarantees	14.2	15.4
Rent guarantees	0.0	
Total	87.7	66.0
Rent liabilities		
Within one year		
Premises rents	2.0	1.4
Other rents	0.5	0.4
Within 1-5 years		
Premises rents	4.3	
Other rents	0.8	0.7
Over 5 years		
Premises rents	0.7	
Total	8.3	2.5
Contract guarantees		
Production guarantees	1.4	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. Premises rent liabilities have increased in 2017 due new long-term premises lease agreement.

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.

RELATED PARTIES

The Group's related parties include Group companies, members of the Board of Directors 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 2017	Sales 2016	Purchases 2017	Purchases 2016
Associated companies		10.6	0.0	0.0
Key personnel and their controlled entities	77.5	10.1	3.9	2.0
Total	77.5	20.7	3.9	2.0

EUR million	Receivables Dec 31, 2017	Receivables Dec 31, 2016	Liabilities Dec 31, 2017	Liabilities Dec 31, 2016
Associated companies		1.4	0.0	0.0
Key personnel and their controlled entities	2.2	0.8	0.2	0.2
Total	2.2	2.2	0.2	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.