Half-year Financial Report January-June 2019

LEHTO
ECONOMICALLY DRIVEN CONSTRUCTION

Innovator
in construction business

Our customer promise: the most desired partner in the market

1. One agreement
2. Fixed price
3. Agreed move-in date
4. Agreed content and quality

January - June 2019 in brief

Net sales declined, operating loss as a result

Housing sales developed well, significant new orders for business premises and schools.

The current challenges are the outcome of decisions made during the period of strong growth.

Net sales grew in Housing, declined in Business Premises and Social Care and Educational Premises

Most of the losses from the complete renovation projects, Swedish operations and separate other projects

We have taken corrective actions. Most of our business is in a healthy and profitable state.

Net sales, MEUR
246.3

Change in net sales
-15.6%

Operating loss of the net sales
-11.2%

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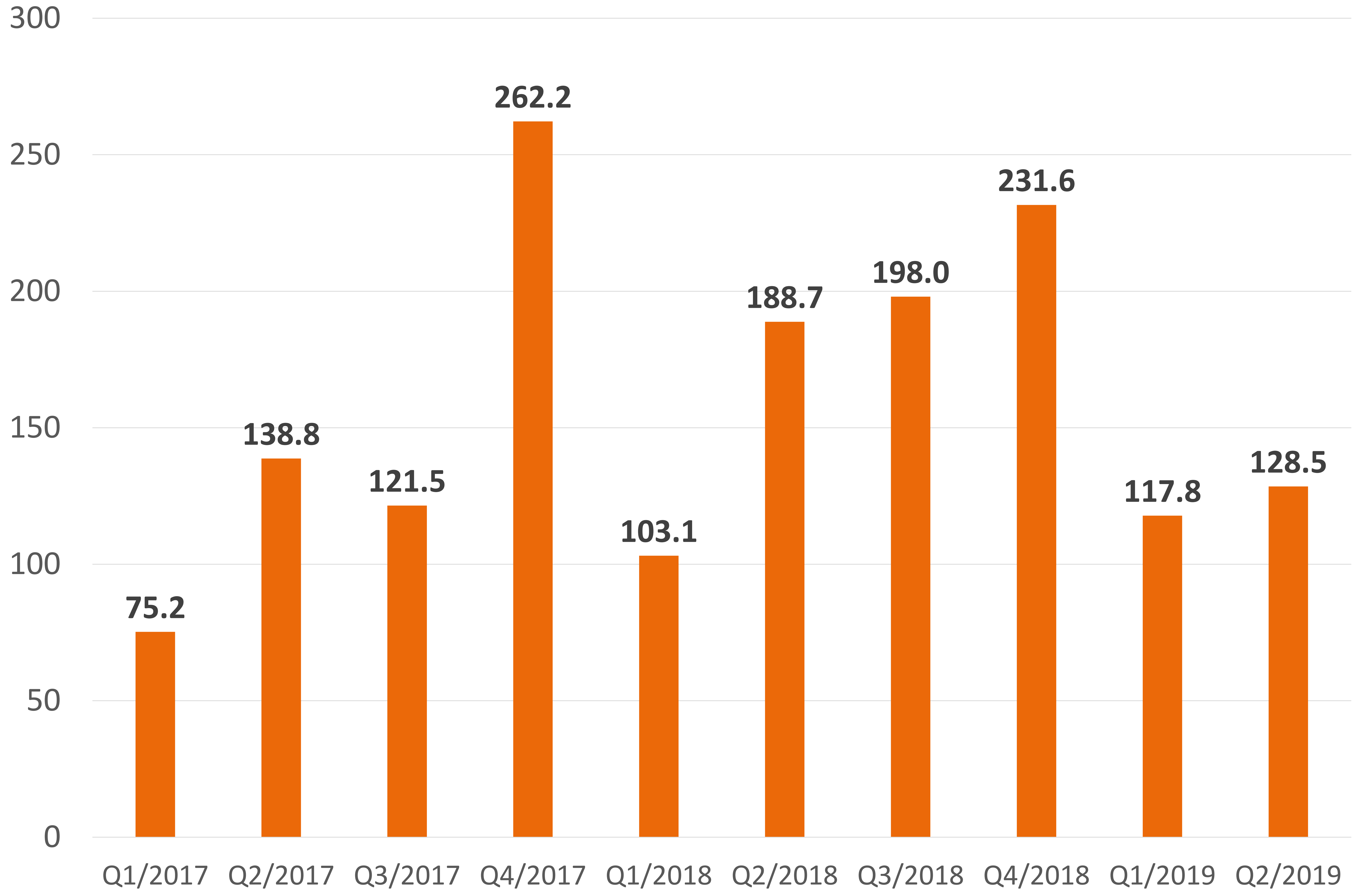
Net sales by service area (EUR million)

Service area	1-6/2019	1-6/2018	Change
Business Premises	**77.7**	124.2	-37.4%
Housing	**135.6**	110.8	22.4%
Social Care and Educational Premises	**32.9**	56.8	-42.0%
TOTAL	**246.3**	291.9	-15.6%

Group's net sales / quarter, EUR million



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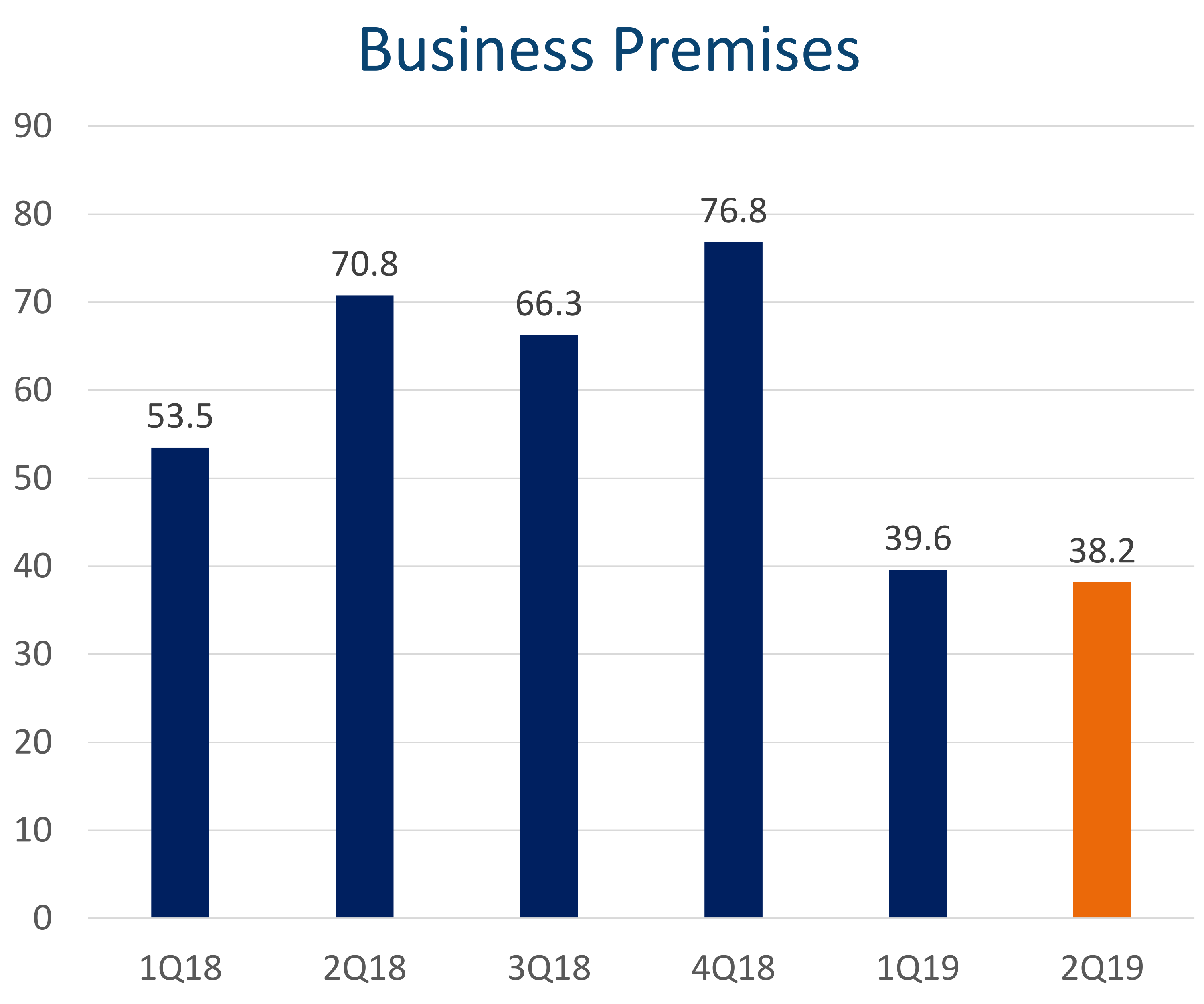
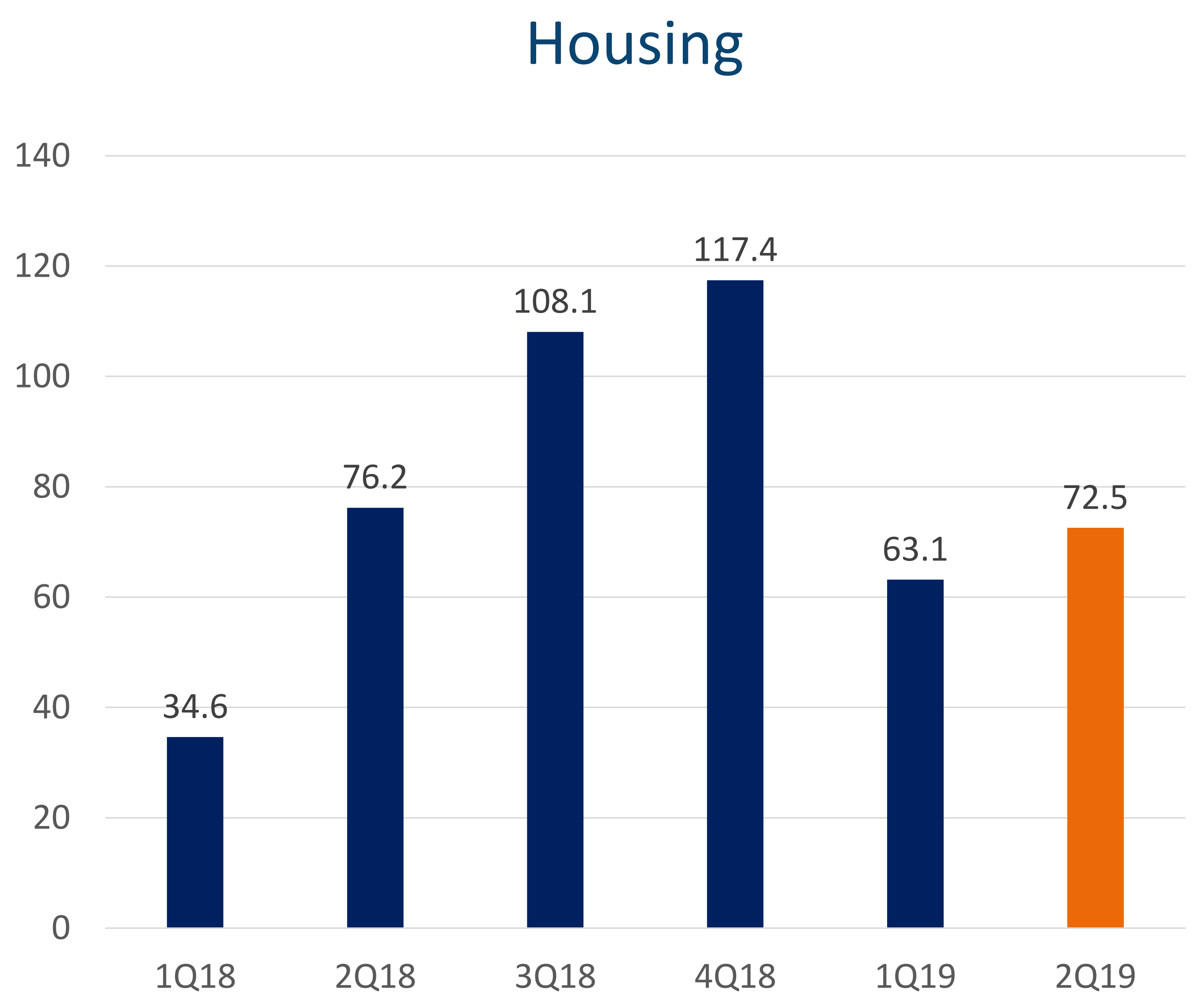
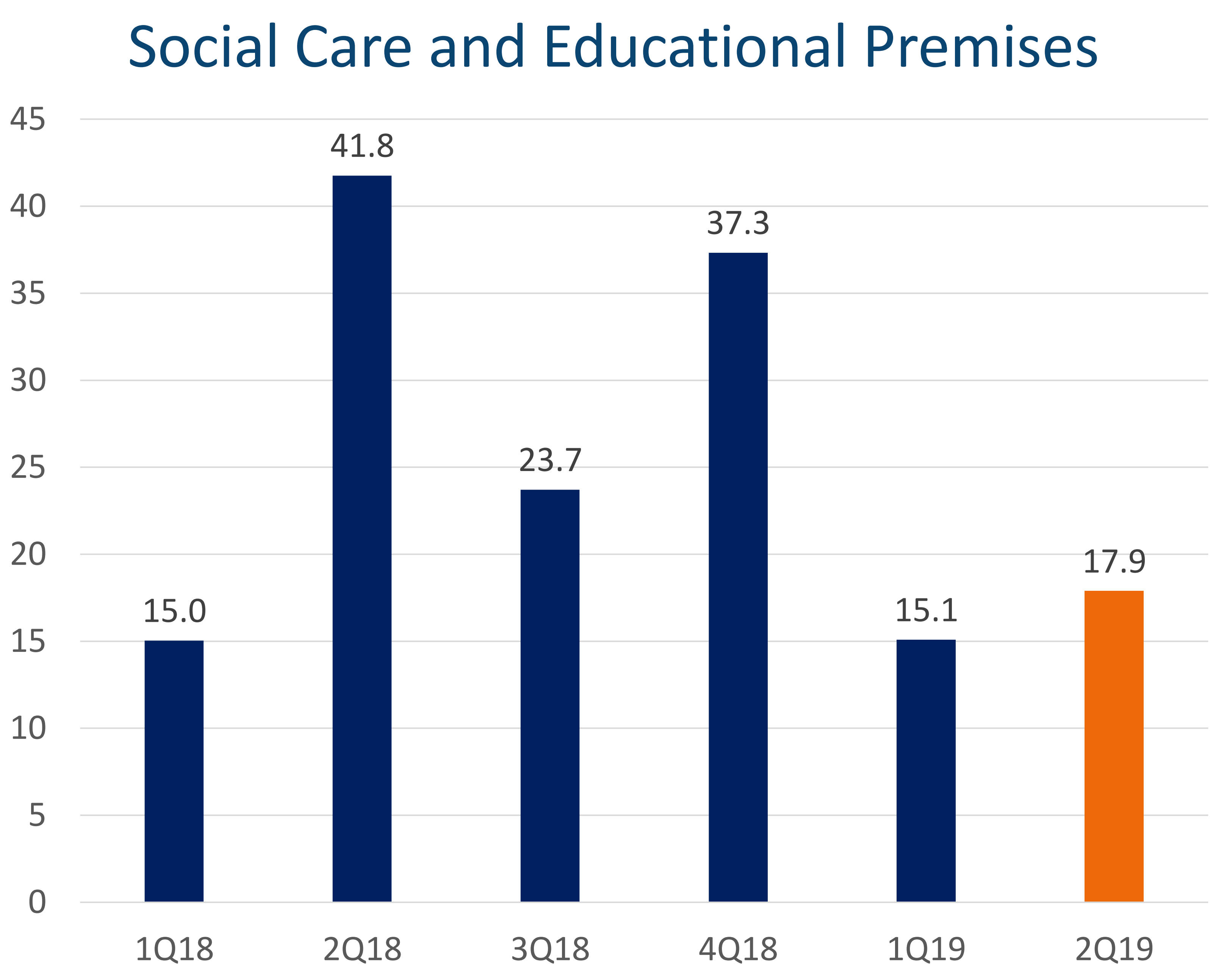
Net sales by quarter and service area, EUR million







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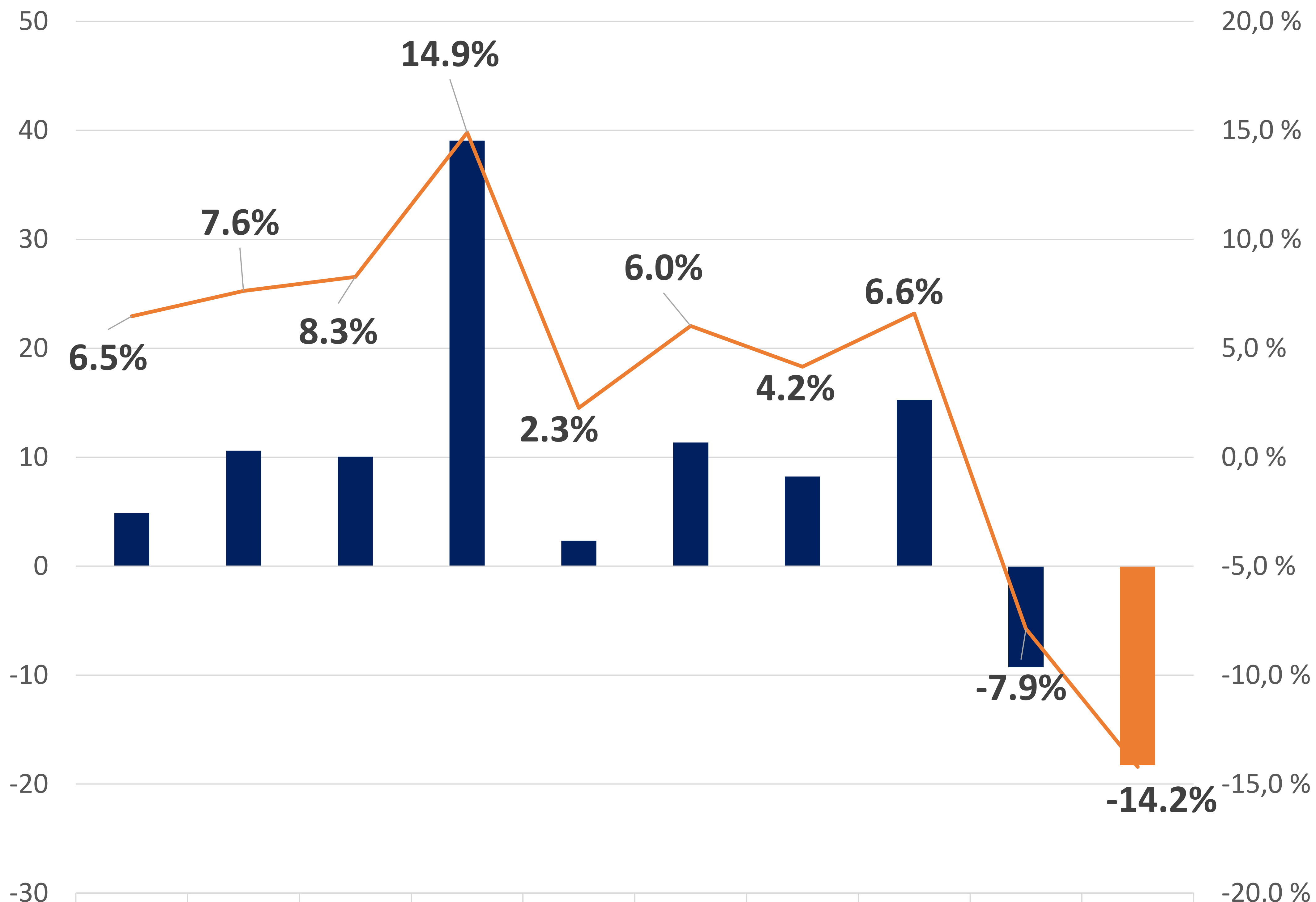
Operating loss – 11.2% of the net sales

- Operating loss -27.5 MEUR i.e. -11.2% of the net sales.

- The main factors contributing to the operating loss were the complete renovation operations, the Swedish operations and some separate projects in Social Care and Educational Premises.



	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Operating profit, EUR million	4,9	10,6	10,1	39,1	2,3	11,4	8,2	15,3	-9,3	-18,3
Operating profit, % of net sales	6,5 %	7,6 %	8,3 %	14,9 %	2,3 %	6,0 %	4,2 %	6,6 %	-7,9 %	-14,2 %

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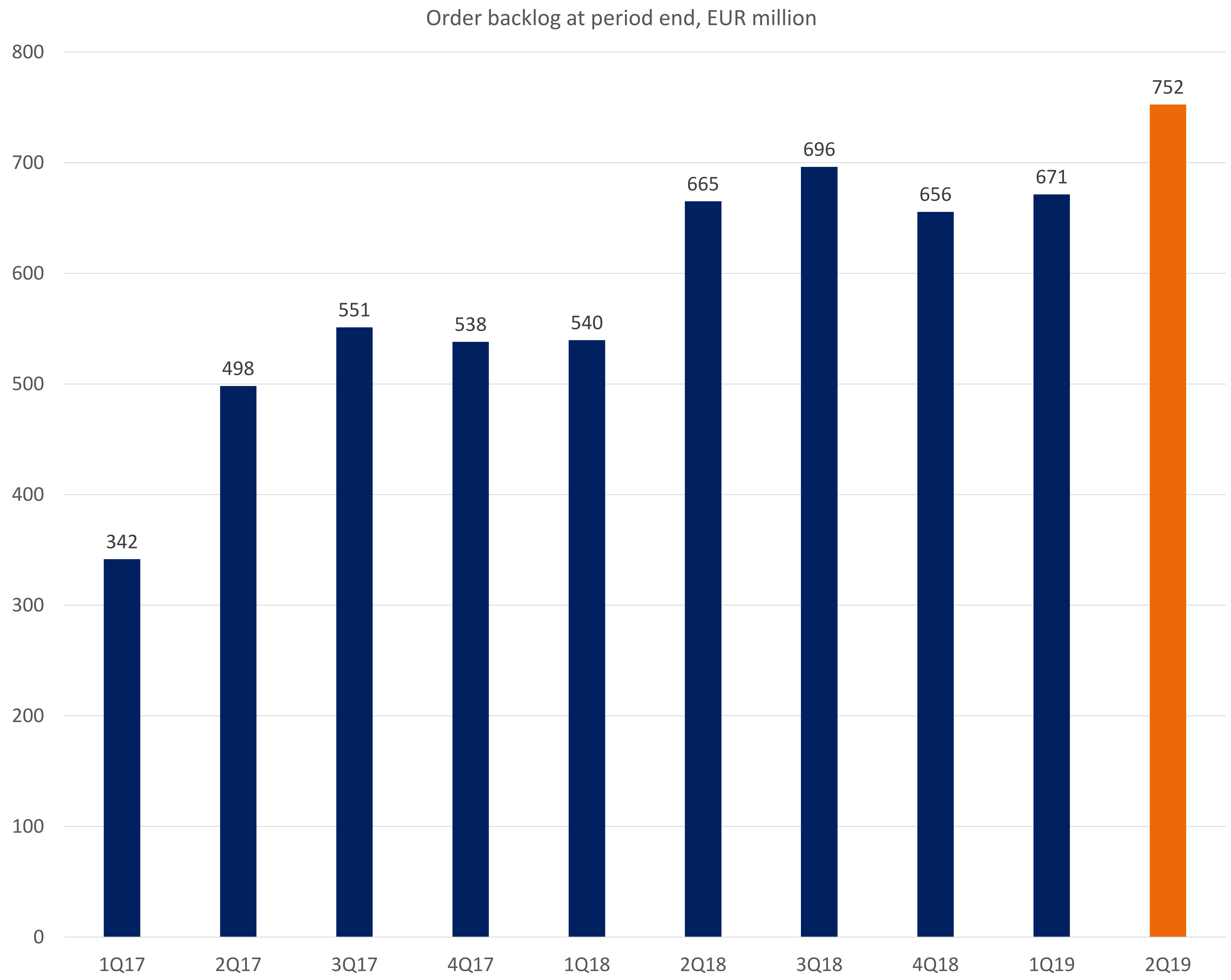
Order backlog grew in all service areas



Balance sheet and financing

Consolidated balance sheet, EUR million	30 June 2019	30 June 2018	31 December 2018
Non-current assets	51.8*	33.6	37.7
Current assets			
Inventories	412.3**	198.6	238.2
Current receivables	142.0	148.1	139.0
Cash and cash equivalents	22.8	13.0	53.4
Total assets	**628.8**	**393.3**	**468.3**
Equity	125.2	144.7	162.4
Financial liabilities	174.8	59.6	115.9
Lease liabilities	85.2		
Prepayment received	142.8	104.3	88.3
Other payables	100.9	84.6	101.8
Total equity and liabilities	**628.8**	**393.3**	**468.3**

*) Includes IFRS 16 assets of EUR 7.7 million.
**) Includes IFRS 16 assets of EUR 77.5 million.

Cash flow statement

Cash flow statement, EUR million	1–6/2019	1–6/2018	1–12/2018
Cash flow from operating activities	-53.2	-44.2	-18.3
Cash flow from investments	-1.7	-8.3	-13.7
Cash flow from financing	24.4	-2.4	17.5
Change in cash and cash equivalents	**-30.5**	**-54.9**	**-14.5**
Cash and cash equivalents at beginning of period	53.4	68.0	68.0
Cash and cash equivalents at end of period	22.8	13.0	53.4

Cash flow from operating activities includes EUR 22.2 million increase in net working capital

Business Premises

- Net sales declined by 37.4% on the comparison period to EUR 77.7 (124.2) million.
- Demand for business premises was low but demand picked up towards the end of the period.
- Larger projects were started up at a slower rate than earlier.
- Demand for large logistics and commercial buildings declined but there was greater demand for office and hotel projects.
- The number of projects was on par with the comparison period, but the average size of projects was smaller than last year. The decline in net sales was also impacted by delays in the start-up of larger projects for which a contract has already been signed.
- A total of 13 projects were completed during the review period, the largest of which was the Retail Park in Laajalahti, Espoo. At the end of the review period, 20 projects were under construction, most notably Ideapark in Seinäjoki and an office building in Vantaa.
- Lehto and Fennovoima signed a contract for the design and construction of an administrative building and plant office for the Hanhikivi 1 nuclear power plant. The contract is valued at about EUR 30 million.
- Lehto and the City of Jyväskylä will continue developing Hippos-project and are seeking a new main financier.
- Four loss-making complete renovation projects have a significant impact on the result for the review period.

Housing

- Net sales rose by 22.4% on the comparison period to EUR 135.6 million.
- Demand for housing remained at a good level, sales periods have lengthened. The competition is tighter and there is a price pressure in high demand areas.
- During the review period 933 new housing units were completed and at the end of the review period. The number of unsold housing units under construction declined.
- The largest housing construction projects currently in progress are in Kaivoksela in Vantaa and in the centre of Oulu.
- Lehto and German DWS Real Estate GmbH (part of Deutche Bank Group) signed an agreement according to which Lehto will build and sell a portfolio of 542 apartments for DWS.
- Juha Höyhtyä, M.Sc. (Civil Eng.), MBA, was appointed as the new Executive Vice President of the service area.
- The Housing service area has taken over the well-organized and profitable pipeline renovations previously carried out by the now-discontinued Building Renovation service area. Demand for pipeline renovations remained good, with four pipeline renovation projects completed during the review period, and 10 under construction at period end.

Social care and Educational Premises

- Net sales in this service area decreased by 42.0% year-on-year, to EUR 32.9 (56.8) million.
- Net sales for the period under review were fairly evenly divided between care home and school / daycare centres.
- Five care and service units and one school were completed during the review period.
- There were 10 care and service units, one daycare centre, three schools and one healthcare centre under construction at the end of the review period.
- Demand for schools has remained at a good level.
- There was a decline in care home construction during the review period.
- Lehto has put a great deal of work into improving project preparatory phase and management in this service area, and operations are now more clearly targeted on developing Lehto's own product concepts and more efficient use of the company's own manufacturing. These measures are expected to gradually improve project profitability in this service area.

Factory production is the cornerstone in our strategy

- Lehto's own factory production is the cornerstone of our strategy, which is constantly being developed
- In May, Lehto balanced the capacity with short-term demand.
- Lehto aims to move construction from the construction site to the factories, and aims to increase the share of factory production in construction.

Swedish operations

- Lehto’s Swedish subsidiary has been operational for just under two years. The unit is currently carrying out a daycare centre project in which three modular daycare centres will be built in the municipality of Botkyrka.

- There have been significant problems in coordinating factory production and on-site work phases and fulfilling the requirements of the customer. As a result, the project will post a loss. Swedish operations had a negative impact of EUR 5.9 million on the Group’s operating profit for January-June.

- The Swedish operations are still in the start-up phase and we are now in the process of evaluating our business direction and our ability to take advantage of our competitive advantages in the market with the new management of the Swedish operations.

Outlook for 2019

(updated 6 August, 2019)

Lehto estimates that the Group's net sales for 2019 will be either at the same level or lower than in 2018 (EUR 721.5 million in 2018) and that the full-year 2019 operating result will be in the red due to the steep losses posted in the first half of the year (operating profit of EUR 37.2 million, or 5.2% of net sales in 2018).

Share

- 18,790 shareholders (30 June 2019)
- Closing price EUR 2.64 (28 June 2019)
- Highest rate during the review period EUR 5.33
- Lowest rate during the review period EUR 2.14
- A total of 20,995,623 shares in the company were traded during the period. The value of the trading was approximately EUR 70 million. The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments.

Lehto wants to renew the construction - but we are still on the way to achieving this goal

We want to renew and change the construction industry. We are still on the way to achieving this goal.

We have been able to create affordable space for different premises, move construction work from work sites to factories, increase the number of standardized solutions, and bring innovative solutions to the industry.

We are currently experiencing pain in growth and renewal, but we strongly believe in our strategy.

The construction sector has not renewed or increased its productivity for over 40 years. Renewal is challenging, but working towards this goal is worthwhile.

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