Lehto Group Plc's Half-year Financial Report 1 January–30 June 2019

January-June net sales down by 15.6%, operating loss EUR 27.5 million

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

LEHTO GROUP	1–6/2019	1–6/2018	1–12/2018
Net sales, EUR million	246.3	291.9	721.5
Change in net sales, %	-15.6%	36.4%	20.7%
Operating profit, EUR million	-27.5	13.7	37.2
Operating profit, % of net sales	-11.2%	4.7%	5.2%
Profit for the period, EUR million	-22.8	10.8	28.7
Order backlog at period end, EUR million	752.5	665.0	655.6
Earnings per share, EUR	-0.39	0.19	0.49
Cash and cash equivalents, EUR million	22.8	13.0	53.4
Interest-bearing liabilities, EUR million	259.9*)	59.6	115.9
Equity ratio, %	25.8%	50.1%	42.7%
Net gearing ratio, %	189.4%	32.3%	38.5%

**) Interest-bearing liabilities for 2019 include EUR 85.2 million in lease liabilities in accordance with IFRS 16.*

Compared to the corresponding period of the previous year, Lehto Group's net sales for January–June declined by 15.6% to EUR 246.3 (291.9) million. Net sales grew in the Housing service area and declined in the Business Premises and Social Care and Educational Premises service areas.

The operating loss was EUR 27.5 million (operating profit of EUR 13.7 million), or-11.2% (4.7%) of net sales. The key factors behind the operating loss were the losses of EUR 15.0 million from complete renovation operations, losses of EUR 5.9 million from operations in Sweden and losses from individual projects in the Social Care and Educational Premises service area.

The Group's order backlog rose to EUR 752.5 million (EUR 655.6 million on 31 December 2018). The order backlog grew in all service areas. A construction project is included in the order backlog 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.

NET SALES BY SERVICE AREA, EUR MILLION	1–6/2019	1–6/2018	CHANGE	1–12/2018
Business Premises	77.7	124.2	37.4%	267.3
Housing	135.6	110.8	22.4%	336.3
Social Care and Educational Premises	32.9	56.8	-42.0%	117.8
Total	**246.3**	**291.9**	**-15.6%**	**721.5**

Lehto's CEO Hannu Lehto:

"Our housing sales developed well in the first half of the year. In January-June, we sold 1,045 housing units, 819 in developer-contracting projects and 226 in contract projects. In addition, we made an agreement to build and sell a portfolio of 542 apartments to the German company DWS. We also received major new orders for business premises and schools. Thanks to the good trend in our order intake, our order backlog grew by EUR 97 million from the turn of the year to EUR 752 million.

The ongoing problems in complete renovation projects and projects in Sweden were particularly disappointing. Complete renovation operations caused losses of EUR 15 million in the first half of the year and Swedish operations posted a loss of about EUR 6 million. Despite our corrective actions, we could not stay within the updated cost estimates and the project completion dates have been delayed.

We had previously already noted that complete renovation operations are a poor fit for Lehto's strategy, which is based on standardised solutions and industrial production; for this reason, we discontinued the Building Renovation service area. After the termination of this unit, the company's pipeline renovations business was transferred to the Housing service area. The well-organised pipeline renovations business has been profitable for a long time and the review period was no exception. The business has also seen controlled growth. 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.

The weak result for the review period is also explained by several clearly loss-making projects in the Social Care and Educational Premises service area and the relatively low net sales in the Business Premises service area. Insufficient preparation before project start-up is a common factor behind poor performance in projects. Accordingly, during the past year, we have taken numerous corrective actions to develop the design processes and project management. Projects will be assessed and prepared much more accurately than during the period of strong growth. We expect that this will improve the profitability of future projects.

The current challenges are the outcome of decisions made during the period of strong growth, some of which, in retrospect, were incorrect. We are currently working on about 90 projects, of which around 10% will generate losses during this financial period. However, I can state that most of our business is in a healthy and profitable shape, based on our strategic competitive advantages: design management, standardised solutions and industrial manufacture. The projects that are based on our strategic competitive advantages are financially sound. Going forward, we intend to focus on such projects.

The second half of the year looks favourable, as the problematic projects have either been completed or will be wrapped up by the end of September, and a significant share of the housing stock currently under construction will be completed and recognised as income in the last quarter of the year."

Outlook for 2019

On 6 August 2019, Lehto published a stock exchange release that the financial outlook had weakened. The view published at that time is unchanged.

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).

The outlook for net sales is weakened by delays in the start-up of business premises projects. The major reason behind the weaker outlook for operating profit is the significantly higher than expected losses on complete renovation projects. The outlook for operating profit is also weakened by individual loss-making projects in the Social Care and Educational Premises and Business Premises service areas and a slight decline in the selling prices of apartments.

The first-half result is burdened by losses of about EUR 15 million from complete renovation operations and losses of around EUR 6 million from operations in Sweden. The full-year estimate accounts for the losses from the complete renovation business and one project in Sweden.

The outlook is based on the information available to the company on the progress of ongoing construction projects, the company's estimate of construction projects to be started and sold in 2019, and the current outlook on trends in the housing market.

The main risks associated with the development of net sales and operating profit are posed by weaker demand for housing, delays in the start-up of care home, school and business premises projects as well as higher costs of completing projects.

Video presentation on the half-year report

Lehto will release a video presentation on its half-year report for January-June 2019 on its website on Thursday, 15 August 2019 at 9:00 a.m. (EET) at www.lehto.fi/en/investors. The presentation will also be available on the company's website after this.

Business development in the review period

BUSINESS ENVIRONMENT

The rate of growth in construction is slowing down in Finland. In their business cycle reports, the RAKSU group, which studies trends in construction led by the Ministry of Finance, and the Confederation of Finnish Construction Industries RT estimate that construction output in 2019 will either decline or at best remain on par with 2018. Output is expected to decline further in 2020. The most significant decline will occur in construction of housing, business premises and offices.

Demand for housing remained good during the review period, but large housing production volumes have increased both supply and competition in the market.

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 the 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 comprises turnkey projects, where Lehto carries 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.

As from the beginning of 2019, the Business Premises service area includes the functions of the discontinued complete renovation unit, with the exception of pipeline renovations, which were transferred into the Housing service area.

Business development in the review period

Demand for business premises was low in the first half of the review period, 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.

Net sales in the Business Premises service area declined by 37.4% from the comparison period to EUR 77.7 (124.2) million. 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. The year-on-year decline in net sales and individual loss-making projects weakened the unit's profitability.

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.

The order backlog of Business Premises service area rose to EUR 194.6 million (EUR 167.6 million on 31 December 2018). In June, 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 has been developing the Hippos2020 project in collaboration with the City of Jyväskylä, Fennia Asset Management Ltd and other investors. On 29 March 2019, Fennia Asset Management Ltd announced that it will no longer continue developing the project. However, Lehto and the City of Jyväskylä will continue and are seeking a new main financier. A project company has been set up for the project. It is responsible for the costs of the development work. The project involves the standard risks associated with property development, such as acquiring tenants.

Complete renovation operations

Four loss-making complete renovation projects have a significant impact on the result for the review period. Two of these are underway in Katajanokka, Helsinki, where old office buildings are being converted into housing and a hotel. These are fixed-price contracts that are estimated to be completed in August-September 2019.

The third project – the conversion of an old office building into a hotel – will be implemented in Sörnäinen, Helsinki. It is a fixed-price contract that is expected to be completed in September 2019.

The fourth project is a developer contracting project in Punavuori, Helsinki, where old residential/business premises were repaired and a new building with residential/business premises was erected. This project was completed in May 2019 and sales of the apartments and business premises are ongoing.

The total value of these four projects is around EUR 69 million and they are strongly in the red. The losses of the complete renovation operations are also increased by supplementary work on previously completed projects. All in all, the complete renovation operations have a negative impact of EUR-15.0 million on Lehto's operating profit for January-June.

In addition to the four complete renovation projects mentioned above, Lehto is starting up two complete renovation projects in the form of contracting in Helsinki on the basis of earlier commitments. One of these projects, valued at about EUR 27.5 million, will commence in 2019, while the other, valued at around EUR 14 million, will be started up in early 2020. The company has focused on high accuracy in project preparation to ensure their successful implementation.

Forecasting the costs of complete renovation projects has involved significant inaccuracies. The company estimates that it is possible that complete renovation operations will generate further losses in the future. The company has taken this into consideration in its outlook for 2019 published on 6 August 2019.

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. 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.

Lehto housing is divided into three product families: Nero, Deco and Optimi. In addition, as from the beginning of 2019, the Housing service area has included the pipeline renovations business, which was earlier part of the Building Renovation service area that was discontinued at the beginning of the year.

Most Lehto housing properties, over 70%, are concrete Nero apartment buildings and are built using the kitchen/bathroom modules developed by Lehto. These modules include the main electricity, water, ventilation and sewerage solutions for the apartment and building. 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 and connected to each other. This building method ensures rapid completion of construction, improves quality and produces cost savings.

A growing share of Lehto's housing production comprises wooden balcony access blocks and apartment buildings. Apartments in the Deco product family are manufactured as space elements in the factory – the interior surfaces of the apartment are fully finished when it leaves the factory. Space elements are self-supporting modules that are built in the factory and assembled on site. Deco apartments involve a substantially higher amount of industrial prefabrication than Nero apartments.

The Optimi product family consists of detached houses built in area construction projects. Their implementation emphasises architecture and functional space solutions. The Optimi product family involves less prefabrication than Deco and Nero apartments.

Business development in the review period

Demand for housing remained at a good level during the review period, although the sales periods have lengthened. More new housing was on offer in the market than before, which led to tighter competition and price pressure in high demand areas.

During January–June, net sales in the Housing service area rose by 22.4% on the comparison period to EUR 135.6 (110.8) million. Net sales growth was generated by the increase in housing production and sales in all major market areas. Housing sales periods were longer than last year and the greater supply of housing in the market has reduced housing prices somewhat. Raw material and subcontracting costs have risen slightly since last year, due to which the average margin on housing projects saw a slight year-on-year decline. As from the beginning of 2019, the Housing service area has included housing under complete renovation. The comparative information has been adjusted accordingly.

During the review period, a total of 1 045 (783) housing units were sold, 819 in developer contracting projects and 226 in contract projects. On 30 April 2019, Lehto Group Plc's subsidiary Lehto Asunnot Oy ("Lehto") and the German company DWS Real Estate GmbH ("DWS"), which is part of the Deutsche Bank Group, signed an agreement according to which Lehto will build and sell a portfolio of 542 apartments for DWS. The portfolio will contain six separate projects located in Espoo, Turku, Kirkkonummi, Riihimäki and Jyväskylä. One of the projects is already completed and others are under construction and are scheduled for completion during 2019–2020. In accordance with the contract, Lehto will sell the apartments leased, and the portfolio's final sale price will be determined by the actual occupancy rate and rental prices. The projects will be handed over to clients individually on completion, at which point each project will also be paid for. Lehto will handle all financing and bank loans for the projects during the construction phase.

SOLD HOUSING UNITS DURING THE REVIEW PERIOD	Jun 30, 2019	Jun 30, 2018	DEC 31, 2018
Contract	226	375	758
Developer contract	819	408	1 171
Sold housing units during the review period, total	**1 045**	**783**	**1 929**

During the review period 933 (558) new housing units were completed and at the end of the review period, 3,090 housing units were under construction (3,299 on 31 December 2018). The number of unsold housing units under construction declined and at the end of the review period was 1,269 (1,715 on 31 December 2018). Unsold housing units include the 542 units in the portfolio. 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 table below presents the number of housing units under construction. Contract projects include not only contracts ordered by clients, but also housing construction projects developed by Lehto in which the company sells to the client the entire share capital of the housing cooperative established when the project is going.

HOUSING UNITS UNDER CONSTRUCTION	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
Contract	1 096	1 026	1 263
Developer contract	1 994	1 655	2 059
Housing units under construction, total	**3 090**	**2 681**	**3 322**
of which sold	1 821	1 973	1 607

UNSOLD (AVAILABLE OR RESERVED)	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
Under construction	1 269	708	1 715
Completed	174	35	72
Unsold, total	**1 443**	**743**	**1 787**
including DWS units	542	0	462

The number of completed and unsold housing units stood at 174 at period end (72 on 31 December 2018). This includes a project of 51 units in the DWS portfolio that at the end of review period were not yet sold but were sold after period end in August 2019.

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.

At the turn of the year in December 2018, Lehto launched its Lehto Total service package, which combines complementary construction and pipeline renovations for housing cooperatives. A housing cooperative can sell building rights to finance a pipeline renovation. This new service has attracted interest in the market during the first half of the year and Lehto is currently examining dozens of sites. However, these projects will take some time (about two years) to be implemented.

In March, Lehto launched the Deco wooden apartment building concept, which makes it possible to build a four-storey wooden building as a space element solution. The concept provides good support to the company's strategy, as it effectively harnesses industrial manufacturing and standardised solutions, for instance. Product development was largely also driven by demand and megatrends such as ecology and Finnishness. Lehto's wooden blocks of flats are built using domestic wood materials, primarily at the company's factories in Finland. The construction of wooden blocks of flats is also interesting due to the changes in the business environment, as such projects are currently supported, such as by zoning plots suitable for this purpose in key locations in growth centres. In addition, wooden blocks of flats are an excellent match for current additional and complementary construction projects.

At the beginning of June, Juha Höyhtyä, M.Sc. (Civil Eng.), MBA, was appointed as the new Executive Vice President of the service area and as a member of the Group's Executive Board. Mr Juha Höyhtyä has a long experience of construction business. He has served altogether 24 years in Lemminkäinen in Finland as well as abroad. Previously he has acted as CEO of Telinekataja Oy, in which position he worked for approximately four years. Pasi Kokko, the previous head of the service area, left Lehto's employ at the turn of March and April. During the review period, there were indications that the availability and terms of financing are becoming more stringent, especially in investor-driven housing projects. However, this did not have a significant impact on the start-up of Lehto's housing projects.

The order backlog of the Housing service area at the end of the review period was EUR 493.4 million (EUR 428.0 million on 31 December 2018). A major share of the growth in the order backlog is due to the portfolio of 542 housing units ordered by DWS. These units will be completed and sold in 2019-2020.

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. The majority of the care sector properties built by the service area are one – or two-storey buildings built from concrete or wood. Schools and daycare centres are mainly built from wood.

Business development in the review period

The net sales of the 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. In the reporting period 5 (17) new care homes and one school were completed. At the end of the review period, there were 10 (17) care homes, one (two) daycare centre, three (three) schools and one healthcare centre under construction.

As in the previous year, production was geared towards unique and complex buildings. Lehto has faced challenges in both the design and implementation of multi-storied buildings and moving from established solutions to individual solutions has had an unfavourable impact on some project margins in this service area. Individual solutions require considerably more architectural design and special design, and the workload in these projects is greater than that in standard projects. The result for the review period is burdened by one heavily loss-making care home project which has caused the loss of about EUR 2.5 million in operating result.

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.

Demand for school projects has remained at a good level. There is an immediate need for both temporary premises and permanent schools. During the review period, Lehto actively negotiated on school projects around Finland. Five new agreements for school construction, valued at a total of about EUR 29 million, were signed during the review period. According to Lehto's assessment, staying on budget and schedule is currently a decisive factor in school projects due to the tighter financial situation of municipalities. For this reason, the competitive dialogue procedure and the design and build contract model, in which Lehto has robust experience, are becoming common in school procurements.

There was a decline in care home construction during the review period. Care home projects are most likely to be delayed by uncertainties due to the operational challenges faced by care operators. In spite of the current weak demand in the care home market, Lehto estimates that business will continue to be brisk in care and service construction over the coming years, and Lehto is further developing its scaleable concepts for all customer segments in this service area.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 64.4 million (EUR 60.0 million on 31 December 2018) of which EUR 37.1 million is from daycare and school projects and EUR 27.4. million from care homes.

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. The modules were built at the Hartola factory in Finland and transported to Botkyrka for final assembly. 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.

In early March, Thomas Perslund took up his position as the unit's new Managing Director. He has earned a name for himself in Swedish construction thanks to his leading roles in projects for Stockholm's Friends Arena, Oscar Properties, NCC and the City of Stockholm. He has more than 20 years of experience in the field.

FACTORY PRODUCTION

The use of prefabricated products lies at the core of Lehto's business. Lehto manufactures a variety of building modules and elements at its own production facilities for its own use. Lehto has production facilities in Oulainen, Hartola, Humppila, Siikajoki and Ii, totalling about 50,000 m².

During the review period, Lehto's factory capacity was found to be unnecessarily high in relation to its short-term need for factory products. The need for factory products has declined due to delays in the startup of care home projects and developer contracting housing projects, and a year-on-year reduction in the number of business premises projects requiring large roof elements.

In May, Lehto announced that it would start adjustments at the Hartola and Oulainen factories. The aim was to balance capacity with short-term demand. To this end, Lehto engaged in employee cooperation negotiations, as a result of which 51 employees were terminated and 53 laid off temporarily. In addition, it is estimated that another 30 employees will be laid off in autumn 2019. It was decided that about 20 employees would be retrained for new tasks.

Balance sheet and financing

CONSOLIDATED BALANCE SHEET, EUR MILLION	30 JUN 2019	30 JUN 2018	31 DEC 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		
Advances 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**

Lehto adopted the new IFRS 16 Leases standard as of 1 January 2019. Adoption of this standard does not have a significant impact on Lehto's net sales or operating result, but affects several balance sheet key indicators, such as net gearing ratio (which will increase) and equity ratio (which will decrease). The changes to key indicators caused by adoption of the standard do not have an unfavourable impact on Lehto's covenants.

The most significant effects of applying IFRS 16 in the 30 June 2019 balance sheet are: an increase of EUR 85.2 million in financial liabilities, an increase of EUR 7.7 million in non-current assets, and an increase of EUR 77.5 million in inventories. Long-term plot leases for construction projects are presented under inventories. The equity ratio (taking lease liabilities into consideration) stood at 25.8% and the net gearing ratio was 189.4%. The adjusted equity ratio (without the lease liabilities under IFRS 16) stood at 31.2% and the net gearing ratio was 121.4%. Lehto applies a simplified approach during the transitional period, and will not adjust its comparison figures.

The other main changes in Lehto's balance sheet during the review period (that is, not related to IFRS 16) were an increase in inventories and an increase in financial liabilities to finance growth in inventories. Inventories grew due to the increase in the amount of housing production in progress, especially the construction of properties included in the DWS portfolio. Inventories are expected to decline in the second half of the year when a significant number of housing projects are completed.

At the end of the review period, Lehto's cash reserves totalled EUR 22.8 million, and the company also had an undrawn credit facility of EUR 33.8 million at its disposal. In 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. On 29 March 2019, Swedbank AB added EUR 25 million to this Revolving Credit Facility when the total limit increase to EUR 75 million

The covenant levels of the RCF financing agreement have been renegotiated with financiers. As a result of the negotiations, the right to use the full amount of the RCF has been limited. The company expects that its financial situation will develop favourably during the rest of 2019 as less working capital will be committed to new projects than will be released for use from completed projects.

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 the beginning of the period	53.4	68.0	68.0
Cash and cash equivalents at the end of the period	22.8	13.0	53.4

Cash flow from operating activities was EUR 53.2 million, largely due to a EUR 22.2 million increase in net working capital during the review period. Inventories increased by EUR 96.5 million and non-interest-bearing receivables decreased by EUR 1.2 million. The increase in inventories is largely due to the growth in the volume of unfinished housing construction projects. Working capital was also tied to social care and educational premises projects. In these projects, the money is tied up until the completed building is handed over to the customer.

Net cash flow from investments, EUR -1.7 million, consists of replacement investments.

Cash flow from financing stood at EUR 24.4 million. During the review period, the interest-bearing liabilities (including lease liabilities) entered under cash flow from financing rose by EUR 38.7 million. Loans were drawn mainly for financing net working capital requirements. Cash flow from financing also includes a EUR -14.0 million payment of dividends.

Personnel

The average number of Group personnel during the review period was 1,547 (1,371 in 1-6/2018). The number of personnel at period end was 1,532 (1,531 on 31 Dec 2018). About half of the Group's personnel are salaried employees and other half employees working at construction sites. The increased number of employees is mostly due to the expansion of factory operations and the Housing service area.

The company has a long-term share-based incentive plan in place. The aim of the plan is to combine the objectives of the shareholders and the key employees in order to increase the value of the company in the long term and to commit key employees to the company. The plan is directed at a maximum of 70 key employees and the rewards are paid after a restriction period of two years, partly in the company's shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the reward.

On 19 March 2019, Lehto carried out a directed share issue free of consideration related to the reward payment for the performance period 2016 of the incentive plan adopted in 2016. In the share issue, 58,691 new Lehto Group Plc shares were issued free of consideration to 25 Group key employees in accordance with the terms and conditions of the plan.

On 1 April 2019, Lehto announced that Kaarle Törrönen, Vice President, Human Resources, had been appointed to the Executive Board. Kaarle Törrönen has worked over 33 years in various leading HR positions in The Finnish Defence Forces.

2019 Annual General Meeting

In accordance with the proposal of the Board of Directors, the Annual General Meeting of 29 March 2019 decided that the dividend payable for the financial year ending on 31 December 2018 would be EUR 0.24 per share, or a total of EUR 13,994,266.32. The dividend was paid to shareholders who on the record date for the dividend payment, 2 April 2019, were recorded in the shareholders' register held by Euroclear Finland Oy. The dividend payment date was 9 April 2019.

The AGM confirmed the number of Board members to be five. Pursuant to the proposal made by the shareholders' nomination committee, Martti Karppinen, Mikko Räsänen and Pertti Korhonen were re-elected as members of the Board of Directors, and Anne Korkiakoski and Seppo Laine were elected as new members. Päivi Timonen and Sakari Ahdekivi left the Board. The Board members' term of office will expire at the next Annual General Meeting.

At its organisation meeting, the Board of Directors decided to elect Martti Karppinen as its Chairman and also decided to establish an Audit Committee. Seppo Laine was elected as the Chairman and Mikko Räsänen and Pertti Korhonen as the members of this committee.

The above-mentioned and other decisions of the Annual General Meeting were disclosed in the stock exchange release of 29 March 2019.

Other events during the reporting period

On 18 March 2019, Lehto Group Plc's Board of Directors decided, under the authorisation of the Annual General Meeting, to carry out a directed share issue free of consideration related to the reward payment for the performance period 2016 of the incentive plan adopted by Lehto in 2016. Information on the launch as well as the key terms and conditions of the plan has been announced in a stock exchange release published on 20 December 2016. In the share issue, 58,691 new Lehto Group Plc shares (the "Issue Shares") were issued free of consideration to 25 Group key employees in accordance with the terms and conditions of the plan. The Issue Shares corresponded to approximately 0.1 per cent of Lehto's shares and votes prior to the share issue. After the share issue, the total number of Lehto shares and the votes they confer is 58,309,443.

On 1 April 2019, Lehto announced that Kaarle Törrönen, Vice President, Human Resources, had been appointed to the Executive Board, while Pasi Kokko, who had served as the Executive Vice President of Housing and a member of the Executive Board, was leaving Lehto.

On 9 May 2019, Lehto downgraded its financial outlook for 2019. Lehto announced that the Group's net sales for 2019 will be on par with 2018 (EUR 721.5 million in 2018) and that operating profit will be approximately 2–6% of net sales (5.2% in 2018).

The factors underlying the revised outlook for operating profit were the losses on complete renovation projects, the higher-than-expected costs of starting up business in Sweden, the loss on the first daycare centre project, the weaker margins of care home and business premises projects, and delays in the startup of new projects.
On 5 June, 2019, Lehto announced that Juha Höyhtyä had been appointed as the new Executive Vice President of the Housing service area.

Risks and factors of uncertainty

Lehto assesses risks in its daily operations on a continual basis and develops Group-wide risk management practices together with its operative companies. Through the continuous development of risk management, we seek to attract new business opportunities and partners, as well as to further improve the profitability and predictability of our operations. Further improvement of risk management and responding to the challenges of a growing business are Lehto's top operational priorities.

The main risks in the operative business include general risks related to project pricing, schedules, quality, technical implementation and the adherence of stakeholders to agreements. Lehto's reliance on module production and the partial dependence of its housing production on the schedule and efficiency of module production present a risk related to deviations or interruptions in the implementation of modular products.

In its business operations, Lehto is also exposed to risks relating to the availability of financing, overall economic trends and political decision-making and other risks relating to the activities of the public sector. As part of its operational business, Lehto continuously concludes agreements with various parties. The related risks include the technical, legal and commercial condition of the acquired property. The unique and complex construction projects in Lehto's Business Premises service area, in particular, always involve risks related to implementation and costs.

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These 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 only sells the premises upon their completion or at a later stage to a fund, for example. Despite Lehto's completion of premises according to the agreed schedule and costs, Lehto carries a risk related to the capacity of the fund to provide the cash required for the purchase of the premises at the agreed time of payment.

The project business the Group carries out is characterised by variation, which can 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 project can have an effect on the sufficiency of financing. In addition, a project delay may mean that net sales and operating profit from that project are pushed back to the next financial period, thereby weakening net sales and operating profit in the current financial period.

As a result of business growth, working capital is tied up in inventories and receivables in particular. In a situation where the company's business is expanding simultaneously in several service areas, large purchase commitments for construction sites are realised and receivable payments from customers are delayed, the company may run into a situation where its additional financing costs will increase.

Changing building regulations or zoning policies can also have significant effects on the company's business. In a period of economic growth in construction, the availability of skilled labour may also present a risk for the planned launch of a project in the agreed schedule.

During the current financial period, the risks associated with Lehto's business have grown. The main risks related to the net sales, result and financial position during the current financial period are the decrease in housing sales volume and price level, delays in startups of care home, school and business premises projects as well as higher-than-expected project costs and thereby the adequacy of financing.

Lehto seeks to manage these risks with proactive sales efforts, monitoring sales trends, precise project monitoring and rapid corrective actions. Lehto is also actively discussing various financing options with providers of finance.

Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them. More information on Lehto's risks and risk management is available at www.lehto.fi.

Flagging notifications

On 25 January 2019, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from OP Fund Management Company Ltd. According to the notification, the total Lehto shares and votes held by the OP-Suomi Pienyhtiöt and OP-Suomi investment funds, which are managed by OP Fund Management Company Ltd, had decreased below the five (5) per cent limit to 4.71% on 23 January 2019.

Shares and shareholdings

Lehto is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of June was 58,309,443. The company had 18,790 shareholders and no shares in the company are held by the Group itself. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 28 June 2019 was EUR 2.64. The highest rate of the share during the review period was EUR 5.33 and the lowest rate was 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.

Lehto's Annual General Meeting of 29 March 2019 authorised the Board to decide on the purchase of a maximum of 5,800,000 of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company. The authorisation will remain valid until the 2020 Annual General Meeting. 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. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, when the company purchases assets linked to its operations, and to implement incentive systems. The authorisation is valid until 31 October 2021 and replaces the company's previous share issue and option authorisations.

Events after the review period

On 6 August 2019, Lehto published a stock exchange release that the financial outlook for 2019 has weakened. 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).

The outlook for net sales is weakened by delays in the start-up of business premises projects. The major reason behind the weaker outlook for operating profit is the significantly higher than expected losses on complete renovation projects. The outlook for operating profit is also weakened by individual loss-making projects in the Social Care and Educational Premises and Business Premises service areas and a slight decline in the selling prices of apartments. The full-year estimate accounts for the potential additional losses from the complete renovation business in the second half of the year.

On 7 August 2019, Lehto sold the first housing portfolio in Riihimäki to DWS.

Vantaa, 14 August 2019

Lehto Group Plc
Board of Directors

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Tables

The accounting policies and formulas of key figures applied in this review are mainly the same as in the latest annual report.

Lehto adopted the new IFRS 16 Leases standard as of 1 January 2019. The standard requires all leases, with some exceptions, to be recognised as assets and liabilities in the lessee's balance sheet. At the time of adoption on 1 January 2019, the lease liability amounted to EUR 110 million and the corresponding fixed asset to EUR 9 million and inventories to EUR 101 million.

The currently valid lease agreements of the company related to tangible assets are primarily leases of business premises and leases for small machinery and equipment. The fixed asset is based on an estimate of the length of the lease period. In addition, the company has land lease agreements related to developer-contracting construction projects, which are presented in inventories. Land lease agreements related to inventories are often limited to less than a year, but under IFRS 16 they must be classified as assets and liabilities. Depreciation of leased land areas is recognised as part of the acquisition cost of the construction project. Interest expenses on the lease liability of a leased land area is capitalised as part of the acquisition cost of the construction project.

The lease liability is measured at the commencement date at the present value of the lease payments that have not been paid at that date. The present values of leases are determined by discounting the leases using the interest rate implicit in the lease or, if said rate cannot be readily determined, using the lessee's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term. For contracts that are in force for the time being, the company has estimated the length of the lease period. The company applies an exemption in the recognition of short-term and low-value lease agreements with an estimated term of less than 12 months. The lease liability also includes, if applicable, the amount payable on the basis of a residual value guarantee as well as the price when exercising an option to purchase the underlying asset if it is reasonably certain that said option will be exercised.

Adoption of this standard does not have a significant impact on Lehto's net sales or operating result, but affects several balance sheet key indicators, such as net gearing ratio (which will increase) and equity ratio (which will decrease). The Group uses a simplified procedure in the adoption of the standard, without adjusting comparative information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME EUR million	1–6/2019	1–6/2018	1–12/2018
Net sales	**246.3**	**291.9**	**721.5**
Other operating income	1.7	1.9	3.0
Changes in inventories	90.7	65.4	107.1
Capitalised production	0.0	3.7	8.0
Raw materials and consumables used	-140.2	-135.8	-331.7
External services	-164.9	-158.3	-359.5
Employee benefit expenses	-44.9	-41.5	-82.9
Depreciation and amortisation	-4.2	-1.4	-3.5
Other operating expenses	-12.2	-12.1	-24.8
Operating profit	**-27.5**	**13.7**	**37.2**
Financial income	0.2	0.1	0.2
Financial expenses	-1.1	-0.5	-1.2
Share of associated company profits	0.0	0.0	0.0
Profit before taxes	**-28.5**	**13.3**	**36.2**
Income taxes	5.7	-2.5	-7.5
Profit for the period	**-22.8**	**10.8**	**28.7**
Profit attributable to			
Equity holders of the parent company	-22.8	10.8	28.7
Non-controlling interest	0.0	0.0	0.0
	-22.8	**10.8**	**28.7**
Earnings per share calculated from the profit attributable to shareholders of the parent company, EUR per share			
Earnings per share, basic	-0.39	0.19	0.49
Earnings per share, diluted	-0.39	0.19	0.49

CONSOLIDATED BALANCE SHEET
EUR million

	June 30, 2019	June 30, 2018	Dec 31, 2018
Assets			
Non-current assets			
Goodwill	4.6	4.6	4.6
Other intangible assets	3.2	1.7	2.2
Property, plant and equipment	28.8	17.9	22.9
Investment properties	0.7	0.8	0.7
Investments and receivables	0.7	1.9	1.1
Deferred tax assets	13.7	6.7	6.1
Non-current assets total	51.8	33.6	37.7
Current assets			
Inventories	412.3	198.6	238.2
Trade and other receivables	142.0	148.1	139.0
Cash and cash equivalents	22.8	13.0	53.4
Current assets total	577.1	359.7	430.6
Assets total	**628.8**	**393.3**	**468.3**
Equity and liabilities			
Equity			
Share capital	0.1	0.1	0.1
Invested non-restricted equity reserve	69.2	69.2	69.2
Retained earnings	78.7	64.4	64.1
Profit for the financial period	-22.8	10.8	28.7
Equity attributable to shareholders of the parent company	125.2	144.4	162.1
Non-controlling interest	0.0	0.2	0.3
Equity total	125.2	144.7	162.4
Non-current liabilities			
Deferred tax liabilities	0.7	0.5	0.7
Provisions	8.8	3.7	10.4
Financial liabilities	6.3	19.2	20.1
Lease liabilities	80.6		
Other non-current liabilities	7.0	1.2	5.6
Non-current liabilities total	103.4	24.5	36.8
Current liabilities			
Financial liabilities	168.5	40.4	95.8
Lease liabilities	4.6		
Advances received	142.8	104.3	88.3
Trade and other payables	84.4	79.3	85.1
Current liabilities total	400.2	224.0	269.2
Liabilities total	503.7	248.6	305.9
Equity and liabilities total	**628.8**	**393.3**	**468.3**

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 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			10.8	**10.8**	0.0	**10.8**
Total comprehensive income			***10.8***	***10.8***	***0.0***	***10.8***
Transactions with equity holders						
Distribution of dividends			-19.8	**-19.8**		**-19.8**
Share-based compensation			0.8	**0.8**		**0.8**
Other changes			-0.1	**-0.1**	0.0	**-0.1**
Transactions with equity holders, total			***-19.1***	***-19.1***	***0.0***	***-19.1***
Equity at 30 June 2018	**0.1**	**69.2**	**75.2**	**144.4**	**0.2**	**144.7**
Equity at 1 January 2019	**0.1**	**69.2**	**92.8**	**162.1**	**0.3**	**162.4**
Comprehensive income						
Profit for the financial period			-22.8	**-22.8**	0.0	**-22.8**
Total comprehensive income			***-22.8***	***-22.8***	***0.0***	***-22.8***
Transactions with equity holders						
Distribution of dividends			-14.0	**-14.0**		**-14.0**
Share-based compensation			-0.1	**-0.1**		**-0.1**
Other changes			-0.1	**-0.1**		**-0.1**
Transactions with equity holders, total			***-14.2***	***-14.2***		***-14.2***
Changes in holdings in subsidiaries Acquisitions of non-controlling interest not resulting change in control					-0.3	**-0.3**
Equity at 30 June 2019	**0.1**	**69.2**	**55.9**	**125.2**	**0.0**	**125.2**

CONSOLIDATED CASH FLOW STATEMENT EUR million	1–6/2019	1–6/2018	1–12/2018
Cash flow from operating activities			
Profit for the financial period	-22.8	10.8	28.7
Adjustments:			
Non-cash items	1.8	-1.1	4.9
Depreciation and amortisation	4.2	1.4	3.5
Financial income and expenses	0.9	0.5	1.0
Capital gains	-0.8	0.0	-0.4
Income taxes	-5.7	2.5	7.5
Changes in working capital:			
Change in trade and other receivables	1.2	-35.5	-26.2
Change in inventories	-96.5	-65.7	-105.3
Change in trade and other payables	73.1	48.7	78.7
Interest paid and other financial expenses	-0.7	-0.4	-1.0
Financial income received	0.2	0.1	0.2
Income taxes paid	-8.1	-5.3	-9.8
Net cash from operating activities	**-53.2**	**-44.2**	**-18.3**
Cash flow from investments			
Investment in property, plant and equipment	-1.9	-8.2	-14.6
Investment in other intangible assets	-1.5	0.0	-1.3
Sales of associates	1.6	0.0	0.3
Proceeds from sale of tangible and intangible assets	0.0	0.0	0.0
Purchases of available-for-sale financial assets and proceeds	0.0	0.0	0.2
Loans granted	0.0	-0.2	0.0
Repayments of loan receivables	0.0	0.1	1.7
Net cash from investments	**-1.7**	**-8.3**	**-13.7**
Cash flow from financing			
Loans drawn	63.0	35.1	109.3
Loans repaid	-20.8	-17.7	-72.0
Lease liabilities paid	-3.5	0.0	0.0
Acquisition of non-controlling interest	-0.3	0.0	0.0
Dividends paid	-14.0	-19.8	-19.8
Net cash used in financing activities	**24.4**	**-2.4**	**17.5**
Change in cash and cash equivalents (+/-)	*-30.5*	*-54.9*	*-14.5*
Cash and cash equivalents at the beginning of the year	53.4	68.0	68.0
Effects of exchange rate change	-0.1	-0.1	-0.1
Cash and cash equivalents at the end of the period	22.8	13.0	53.4

KEY FIGURES	1–6/2019	1–6/2018	1–12/2018
Net sales, EUR million	246.3	291.9	721.5
Net sales, change %	-15.6 %	36.4 %	20.7 %
Operating profit, EUR million	-27.5	13.7	37.2
Operating profit, as % of net sales	-11.2 %	4.7 %	5.2 %
Profit for the period , EUR million	-22.8	10.8	28.7
Profit for the period, as % of net sales	-9.2 %	3.7 %	4.0 %
Equity ratio, %	25.8 %	50.1 %	42.7 %
Gearing, %	77.2 %	16.5 %	21.3 %
Net gearing ratio, %	189.4 %	32.3 %	38.5 %
Return on equity, ROE, %	-16.9 %	7.3 %	18.3 %
Return on investment, ROI, %	-9.3 %	7.0 %	16.1 %
Order backlog, EUR million	752.5	665.0	655.6
Personnel during the period, average	1 547	1 371	1 457
Personnel at the end of period	1 532	1 531	1 552
Gross expenditure on assets, EUR million	3.3	8.3	15.9
Equity / share, EUR	2.15	2.48	2.78
Earnings per share, EUR, basic	-0.39	0.19	0.49
Earnings per share, EUR, diluted	-0.39	0.19	0.49
Average number of shares during the period, basic	58,283,826	58,250,752	58,250,752
Average number of shares during the period, diluted	58,406,908	58,385,914	58,380,598
Number of shares at the end of the period	58,309,443	58,250,752	58,250,752
Market value of share at the end of period, EUR million	153.9	578.4	247.6
Share prices, EUR			
Highest price, EUR	5.33	14.18	14.18
Lowest price, EUR	2.14	9.60	4.02
Average price, EUR	3.34	11.60	9.13
Price at the end of period, EUR	2.64	9.93	4.25

SEGMENT INFORMATION

The Group has one operating segment, Building Services. The segment's operations consist mainly of providing new construction services. The Group's management monitors the entire Group, and the segment figures are consistent with the Group figures.

LIABILITIES AND GUARANTEES EUR million	June 30, 2019	June 30, 2018	Dec 31, 2018
Loans covered by pledges on assets			
Loans from financial institutions	58.1	45.7	65.8
Debts on shares in unsold housing and real estate company shares	65.6	12.6	48.9
Instalment debts	0.7	1.0	0.8
Total	**124.5**	**59.3**	**115.6**
Guarantees			
Corporate mortgages	1.8	1.8	1.8
Real-estate mortgages	44.9	4.6	4.9
Pledges	27.7	19.8	65.4
Absolute guarantees	0.3	0.4	0.3
Total	**74.8**	**26.6**	**72.4**
Contract guarantees			
Production guarantees	40.9	43.5	49.9
Warranty guarantees	14.5	12.6	14.3
RS guarantees	37.5	32.6	36.8
Payment guarantees	4.0	13.3	10.5
Total	**96.9**	**102.0**	**111.5**

REVENUE ANALYSIS, EUR million	1–6/2019	1–6/2018	1–12/2018
Revenue recognised over time	168.1	218.6	463.6
Revenue recognised upon delivery	78.1	73.0	257.4
Rental income	0.2	0.2	0.5
Total	**246.3**	**291.9**	**721.5**

LEHTO
ECONOMICALLY DRIVEN CONSTRUCTION

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 1–6/2019	PURCHASES 1–6/2019	SALES 1–6/2018	PURCHASES 1–6/2018	SALES 1–12/2018	PURCHASES 1–12/2018
Key personnel and their controlled entities	2.0	2.8	17.5	3.1	56.3	5.2
Total	**2.0**	**2.8**	**17.5**	**3.1**	**56.3**	**5.2**

EUR million	RECEIVABLES JUNE 30 2019	LIABILITIES JUNE 30 2019	RECEIVABLES JUNE 30 2018	LIABILITIES JUNE 30 2018	RECEIVABLES DEC 31 2018	LIABILITIES DEC 31 2018
Key personnel and their controlled entities	1.0	0.4	2.9	0.1	7.8	0.1
Total	**1.0**	**0.4**	**2.9**	**0.1**	**7.8**	**0.1**

There has been no transactions with associates. A major part of related party transactions is 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.