

# Report by the Board of Directors

Lehto Group Plc



# Summary 2020

Group	1-12/2020	1-12/2019
Net sales, EUR million	544.7	667.7
Change in net sales, %	-18.4%	-7.5%
Operating result, EUR million	-2.9	-41.8
Operating result, % of net sales	-0.5%	-6.3%
Result for the period, EUR million	-8.2	-35.7
Order backlog at period end, EUR million	426.3	481.8
Earnings per share, EUR <sup>1)</sup>	-0.12	-0.51
Cash and cash equivalents, EUR million	105.1	59.2
Interest-bearing liabilities, EUR million	113.7	189.2
Lease liabilities in interest-bearing liabilities, EUR million	33.3	46.8
Equity ratio, %	38.7%	29.6%
Net gearing ratio, %	7.0%	115.9%
Equity ratio, excl. IFRS 16 lease liabilities, %	43.2%	33.8%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	-19.9%	74.1%

<sup>1)</sup> The figures for 2019 have been adjusted for the share issue carried out in December 2020.

## 2020 in brief:

- Operations focused on implementing the company's revitalisation programme as well as stabilising processes and operating methods.
- Net sales were down 18.4% on the previous year and amounted to EUR 544.7 (667.7) million. Net sales decreased in both the Housing and Business Premises service areas. The main reasons behind the decline in net sales are the waning care home market, the delayed start-ups of new projects due to the coronavirus pandemic, and the company's shift of focus in 2019 to projects aligned with its strategy.
- The operating result improved significantly year-on-year and amounted to EUR -2.9 (-41.8) million. The improvement in the operating result can be primarily attributed to the discontinuation or reorganisation of loss-making business functions. The result was burdened especially by school projects with weak margins and losses in operations in Sweden.
- An oversubscribed rights issue was carried out in November-December. The net proceeds of EUR 19.3 million received from the offering increased both equity and cash and cash equivalents.
- Solvency developed and indebtedness decreased significantly. Equity ratio (without the lease liabilities under IFRS 16) rose to 43.2% (33.8%) and the net gearing ratio declined to -19.9% (74.1%).
- Cash flow from operating activities was EUR 73.6 million positive. Net cash flow was EUR 45.8 million and cash and cash equivalents amounted to EUR 105.1 (59.2) million at the end of the review period.
- The order backlog decreased to EUR 426.3 (481.8) million as company focused on projects with good strategic fit and fewer developer contracted housing projects were started up.
- The Board of Directors proposes that no dividend be paid for the financial year.



## NET SALES BY SERVICE AREA, EUR MILLION

	1-12/2020	1-12/2019	Change
Business Premises	171.7	201.8	-14.9%
Housing	372.9	465.9	-20.0%
<b>Total</b>	<b>544.7</b>	<b>667.7</b>	<b>-18.4%</b>

## NET SALES AND OPERATING PROFIT BY QUARTER, EUR MILLION

	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2020
Net sales	119.4	135.1	120.4	169.7	<b>544.7</b>
Operating result	-3.5	-1.6	-2.6	4.9	<b>-2.9</b>

## Business environment and business development in 2020

### DEVELOPMENT OF THE MARKET ENVIRONMENT

In 2020, construction activity in Finland continued at a higher level than expected. In its business cycle review published in November 2020, the Confederation of Finnish Construction Industries RT estimated that construction volume would decline by about 1.1% in 2020, and that new project start-ups would fall by around 10% year-on-year. The factor that had the greatest impact on this was the decrease in start-ups of residential, industrial and warehouse buildings.

The Confederation of Finnish Construction Industries RT estimates that housing construction in 2020 slowed down significantly less than was expected in the spring. That said,

start-ups in housing production decreased from the 2019 figure of around 38,100 units to about 35,000 units in 2020. Housing production is expected to decline further in 2021 by more than 10%. As financing tightens, new construction is focused even more heavily on the largest urban areas and lower-risk projects.

In its outlook report published in September 2020, the construction trends group of the Ministry of Finance (RAKSU) estimates that the coronavirus pandemic has had less of an impact on construction than expected. Construction output in 2020 is estimated to have remained close to the previous year's level, as the output grew during the first half of the year in spite of the weak outlook. The

RAKSU working group also estimates that construction will decrease further in 2021 as the uncertain economic cycle and higher-than-normal production volumes return closer to the long-term levels in both housing and public-sector construction. The group expects that output will decline by three to five per cent in 2021. RAKSU forecasts that housing start-ups will amount to 33,000–34,000 in 2020 and that this number will decline further in 2021 to 30,000 units.

It should be noted that construction forecasts change rapidly and indicators of future development can only be seen with a delay. According to the statistics published by Statistics Finland on 26 January 2021, the number of building permits for housing was growing significantly in the latter half of 2020. Statistics Finland states that building permits for a total of 3.4 million cubic metres of housing were granted in September–November, 12.5 per cent more than a year earlier. Significantly more building permits were granted for apartment buildings than in the previous year, seeing growth of 20.7 per cent in terms of cubic metres. The volume of cubic metres for detached houses was up by one per cent year-on-year.

Building permits for a total of 11,936 housing units were granted in the September–November period, year-on-year growth of 21.2 per cent. At the same time, the construction of a total of 13,222 housing units was started up and 10,349 were completed.



## HOUSING

In the Housing service area, Lehto builds new blocks of flats in growth centres, carries out pipeline renovations, largely in the Helsinki metropolitan area, and implements care homes and assisted living facilities around Finland. The care home unit of Lehto's now-discontinued Social Care and Educational Premises service area was transferred to Housing on 1 May 2020.

In line with the strategy updated in autumn 2020, the Housing service area seeks to produce "ingenious urban homes for everyone". Operations focus on growing university towns, where Lehto wants to enable households with low and medium incomes to live in high-quality housing. Affordably priced and comfortable urban homes are the result of diligent housing design and standardised construction solutions created through long-term development efforts. In spite of our standardised approach to production, our residential properties are architecturally highly diverse. We build with wood and stone, utilising the company's highly advanced PUU (WOOD) and KIVI (STONE) concepts. Low-carbon solutions will be an even more important competitive factor in the development of our concepts going forward.

The Housing service area is divided into developer-contracted production and contracting projects. In Lehto's developer-contracted housing projects, the company designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. These customers include private persons as well as private and institutional investors. In its care home business, Lehto designs and builds care homes and assisted living units for both care operators and municipalities. Most of Lehto's current housing projects are concrete

apartment buildings and are built using the kitchen/bathroom modules developed and manufactured by Lehto. These modules include the main electricity, water, heat, ventilation and sewerage solutions for the apartment and building. The modules are completely prefabricated at Lehto's own factories and transported to the construction site, where they are lowered into the building through the roof and connected to each other. This patented building method speeds up construction, improves quality and produces cost savings.

An increasing share of Lehto's housing production comprises apartment buildings that are constructed using wooden elements. Apartments in this product family are manufactured as space elements in the company's own factories in Finland – the interior surfaces of the apartment are fully finished when it leaves the factory. Space elements are self-supporting modules that are built at the factory and assembled on site. Wooden apartment buildings involve significantly more industrial prefabrication than concrete apartment buildings. Thanks to this, the on-site schedule can be significantly shorter than in concrete construction. During the 2021-2023 strategy period, Lehto seeks to increase the share of its production accounted for by efficient and ecological wood construction.

In its care home business, Lehto designs and builds care homes and assisted living units for both care operators and municipalities. These 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 party that invests in properties in the sector. The majority of care homes are 1–2-storey concrete or wooden buildings. Going forward, care homes

and assisted living units will expand Lehto's offering in larger project packages in city centres and suburban areas

### **Business development in 2020**

Net sales in the Housing service area declined by 20.0% year-on-year to EUR 372.9 (465.9) million, particularly due to the significant decline in the volume of the care home business and developer contracted housing projects recognised as income during the financial period. Net sales of contracting grew significantly.

During the review period, 2,110 (1,837) housing units were sold, of which 528 (1,499) were developer contracted. Contract projects include 402 units in the last three housing projects in the DWS portfolio, which were handed over in 2020.

Housing sales to consumers and small investors were as expected in January-February, but the coronavirus pandemic led to a clear fall in demand in March–May before returning to the projected level in the summer. Sales went well in the autumn. In the second half of the year, 309 developer contracted housing units were sold.

### **SOLD HOUSING UNITS DURING THE REVIEW PERIOD**

	1-12/2020	1-12/2019
Contract	1,582	338
Developer contract	528	1,499
<b>Sold housing units during the review period, total</b>	<b>2,110</b>	<b>1,837</b>



During the review period, 1,459 (2,872) housing units were completed and the construction of 1,508 (1,035) new units was started. More than 70% of start-ups were in the Greater Helsinki area, about 20% in the Turku and Tampere regions, and the rest in Northern Finland. The number of housing units under construction at the end of the review period was 1,444, on a par with the previous year (1,485).

### HOUSING UNITS UNDER CONSTRUCTION

	1-12/2020	1-12/2019
Under construction at the beginning of the period	1,485	3,322
+ started up during the period	1,508	1,035
- postponed project	-90	
- completed during the period	-1,459	-2,872
<b>Housing units under construction, total</b>	<b>1,444</b>	<b>1,485</b>

At the end of the review period, 174 housing units were either under construction or completed yet unsold. This is noticeably less than during the comparison period (794). Of these, 56 were completed, unsold apartments. This is due not only to the good trend in sales, but also the fact that the focus in housing projects has shifted from developer contracting to contract projects. In a contract project, all the housing units are considered to have been sold at the time of signing.

### UNSOLD HOUSING UNITS

Unsold housing units	31 Dec 2020	31 Dec 2019
Under construction	118	518
Completed	56	276
<b>Unsold housing units, total</b>	<b>174</b>	<b>794</b>
including DWS units	0	402

The Housing service area's order backlog declined to EUR 232.1 million by the end of the review period (EUR 270.9 million on 31 December 2019). The main reason is that large developer contracted projects were completed in the last quarter. The housing production order backlog includes the proportion of developer contracting projects that have been started but have not yet been recognised as net sales. A construction project is included in the order backlog once the decision to start construction has been made and the contract for a developer contracting project has been signed.

During the review period, a long project development phase was wrapped up when the agreements for a housing complex project in Kalasatama, Helsinki were completed. Lehto will build a complex of three housing companies and five separate apartment buildings in Kalasatama, with more than 300 apartments and business premises. The complex will also include a parking facility, which will be built under its yard deck. Two of the housing companies have been sold to institutional investors. The third housing company will be implemented as a consumer project.

Two major portfolio deals were also made during the review period. In June, Lehto and Kojamo Oyj signed a cooperation agreement for 392 Lumo rental apartments in Helsinki and Espoo. The agreement is for 11 apartment buildings, three of which will be wooden. In September, Lehto and NREP signed a project agreement for the construction of more than 300 apartments to rent in wooden apartment buildings at four different locations.

### Pipeline renovations

Pipeline renovations are carried out by Lehto's Housing service area. The pipeline renovation business has remained stable and eight projects were completed during the review period. Twenty-eight properties were under construction at the end of the review period.

Work on construction sites has continued to go well in spite of the exceptional circumstances resulting from the state of emergency. The required communication with housing companies and their shareholders has been carried out remotely.

Demand from housing companies has also remained good, although some delays were seen in decision-making. In Lehto's opinion, demand for pipeline renovations will remain stable in the future, and all project-related decisions and communications with customers can be handled remotely in an effective manner.

In November, Lehto announced that it had made a significant agreement on pipeline renovations in Siltamäki, Helsinki. The project comprises pipeline renovations of 726 housing units in 36 apartment buildings in Siltamäki, Helsinki. The project will be carried out by the end of 2022. It is one of Finland's largest pipeline renovation projects.

## Care home construction

The care home unit was operatively transferred to the Housing service area on 1 May 2020. The volume of the care home business was significantly lower than in the comparison period due to the small number of projects. Four (14) care homes were completed during the review period and three (4) were under construction at the end of the period. Although demand for care homes has remained low, Lehto still signed some agreements for the construction of new care homes during the review period. Lehto expects demand for care homes and assisted living to rise in the longer term.

## BUSINESS PREMISES

In the Business Premises service area, Lehto builds retail premises; logistics, warehouse and production facilities; leisure facilities; large shopping and activity centres; and offices. As of 1 May 2020, Business Premises has included some business from the now-discontinued Social Care and Educational Premises service area, that is, the design and construction of schools and daycare centres for municipalities and national daycare operators.

Business premises are designed according to customers' needs and are built using the structural and spatial solutions that have been developed or tried and tested by Lehto. This area serves local, national and international customers; and also municipalities in the case of schools and daycare centres.

Business Premises conducts most of its operations using a 'design and implement' model in which Lehto is responsible for both the design and actual construction. Lehto also

builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and then designs and builds the property either wholly or partly at its own risk.

Following the strategy update in autumn 2020, the Business Premises service area will focus more closely on selecting projects that are in line with the strategy and concept as well as enhancing planning control. In addition, the company seeks to bolster ecological friendliness in construction.

## Business development in 2020

Net sales in the Business Premises service area declined by 14.9% year-on-year to EUR 171.7 (201.8) million. Due to the coronavirus pandemic, the start-up of a number of projects was delayed, and contract negotiations on some projects were halted, which contributed to the decline in net sales. In addition, net sales in the comparison period were increased by the large-scale Ideapark project in Seinäjoki. Projects started up before the pandemic have progressed in line with plans and there have been no significant disruptions in their implementation.

During the review period, 21 business premises (24 in 2019) were completed and handed over, of which the most significant were a logistics centre in Kerava and the Prisma in Varkaus. At the end of the review period, 13 (20) projects were under construction, most notably three hotel projects in the Greater Helsinki area, an office building for Fennovoima in Pyhäjoki and the Ivalo school centre.

New contract agreements valued at EUR 153.3 million were signed during the period and the order backlog decreased to EUR 194.2 million (EUR 210.9 million on 31 December 2019). Lehto has developed the Hippos2020 project with the City of

Jyväskylä. Uncertainties related to the project have increased due to the coronavirus pandemic, but Lehto and the City of Jyväskylä are still developing the project.

## Complete renovation operations

Lehto's Building Renovation service area was discontinued at the beginning of 2019 and its ongoing complete renovation projects were transferred to the Business Premises service area for completion. Its large loss-making projects were completed in late 2019. The Business Premises service area still has two complete renovation projects to implement based on earlier commitments. The first of these projects is a complete renovation contract valued at about EUR 30 million in which an old office property is being renovated and converted for use as a hotel. The project's margin is at the target level, and work is under way and progressing as planned. The other project is a contract valued at about EUR 16 million in which old teaching facilities will be renovated and converted for use as housing. This project was launched during the review period and is expected to make a loss, which has been recognised as an expense in the result for the period.

In the future, new complete renovation projects will only be undertaken selectively on condition that the renovation is related to new construction projects or when it is a significant part of a larger commercial entity.

## School business

The school business was operatively transferred to the Business Premises service area on 1 May 2020. The volume of the school and daycare centre business was on a par with the previous year.

Six schools (3) and two daycare centres (0) were completed and handed over during the review period.

On 11 June 2020, the Municipality of Inari and Lehto Group signed an agreement for the construction of a new educational centre in Ivalo. Construction began during the summer. The educational centre is being implemented as a lifecycle project that includes not only construction, but also demolition of the old school building and maintenance and user services for a period of 20 years. Lehto manages life cycle commitments either itself or together with partners.

### SWEDISH OPERATIONS

During the review period, the focus of Swedish operations was on starting up the construction of wooden blocks of flats and completing an ongoing daycare centre project. Swedish operations had a negative effect on the Group's operating result for 2020.

Lehto has developed a type of wooden block of flats based on prefabricated room elements that is especially suitable for the Swedish market. Lehto is currently negotiating with customers and financiers on the implementation of the first pilot project.

### 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, primarily for its own use. In 2020, it also sold small quantities of these products outside the Group.

The major share of the factory production comprises kitchen-bathroom modules for concrete-frame apartment

buildings, space elements for wooden apartment buildings and large roof elements for large business premises. In addition, Lehto manufactures external wall elements, aluminium doors, windows as well as kitchen and other fixtures at its factories.

In 2020, its factories made a total of 230 room elements, about 1,300 kitchen-bathroom modules, around 60,000 m<sup>2</sup> of roof elements and approximately 26,000 m<sup>2</sup> of external wall elements. Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.

Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii, totalling about 50,000 m<sup>2</sup>. At the end of the review period, 236 people worked in factory operations (285 on 31 December 2019). During the review period, Lehto decided to combine and boost the efficiency of factory operations by transferring the manufacturing line for large roof elements from Humppila to Hartola, where the company has a large factory unit measuring 20,000 m<sup>2</sup>.



## Balance sheet and financial position

Consolidated balance sheet, EUR million	31 Dec 2020	31 Dec 2019
Non-current assets	63.4	55.8
Current assets		
Inventories, excluding IFRS 16 assets	107.7	210.3
Inventories, IFRS 16 assets	28.0	40.1
Current receivables	79.7	86.3
Cash and cash equivalents	105.1	59.2
<b>Total assets</b>	<b>383.8</b>	<b>451.8</b>
Equity	123.6	112.1
Financial liabilities	80.4	142.4
Lease liabilities	33.3	46.8
Advances received	64.4	73.2
Other payables	82.1	77.3
<b>Total equity and liabilities</b>	<b>383.8</b>	<b>451.8</b>

The balance sheet total decreased by EUR 68.0 million to EUR 383.8 million during the financial year. Solvency and liquidity improved significantly when funds were released from working capital and the company carried out a rights issue. Cash and cash equivalents at the end of the financial year were EUR 105.1 (59.2) million. The equity ratio (taking lease liabilities into consideration) stood at 38.7% (29.6%) and the net gearing ratio was 7.0% (115.9%). The equity ratio, adjusted for comparability with previous years and without the lease liabilities under IFRS 16, stood at 43.2% (33.8%) and the net gearing ratio was -19.9% (74.1%).

### Equity and liabilities

Equity grew to EUR 123.6 (112.1) million following the rights issue carried out in the fourth quarter. The company received net proceeds of about EUR 19.3 million from the issue.

Financial liabilities decreased to EUR 80.4 (142.4) million. Financial liabilities were repaid particularly with funds released from net working capital. The table below presents a breakdown of interest-bearing liabilities at the balance sheet date:

Interest-bearing liabilities	31 Dec 2020	31 Dec 2019
Revolving credit facility (RCF)	39.0	54.1
Project-specific loans	5.0	48.4
RS loans related to unsold apartments in developer contracted housing projects	13.2	32.9
Investment loans	5.8	7.0
VAT payment arrangement	17.3	0.0
<b>Financial liabilities, total</b>	<b>80.4</b>	<b>142.4</b>
IFRS 16 lease liabilities	33.3	46.8
<b>Interest-bearing liabilities, total</b>	<b>113.7</b>	<b>189.2</b>

IFRS 16 lease liabilities are based on the company's lease payment obligations. In line with IFRS 16, which came into force on 1 January 2019, long-term leases are presented in the lessee's balance sheet as both an asset and liability item. The majority of Lehto's lease liabilities relate to plot rents for developer contracted housing projects that are under construction; they are Lehto obligations for as long as the project under construction is under Lehto's control.

Advances received declined to EUR 64.4 (73.2) million. Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities rose slightly to EUR 82.1 (77.3) million and they include liabilities related to ordinary business operations, such as EUR 36.1 (29.8) million in trade payables and EUR 9.6 (12.8) million in VAT liabilities.



## Assets

Non-current assets amounted to EUR 63.4 million at the end of the review period (EUR 55.8 million on 31 December 2019). Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 11.4 (12.1) million in factory buildings, EUR 4.9 (7.2) million in machinery and equipment and EUR 3.6 (2.1) million in capitalised development costs.

Inventories decreased to EUR 135.7 (250.4) million. Inventories include EUR 28.0 (40.1) million in assets under IFRS 16. The decline in inventories is due particularly to the decrease in developer contracted housing production.

Current receivables declined to EUR 79.7 (86.3) million and included, among other items, trade receivables of EUR 46.3 (50.5) million and percentage-of-completion receivables of EUR 20.5 (29.6) million. The decline in receivables is due to the lower business volume.

Cash flow statement, EUR million	1-12/2020	1-12/2019
Cash flow from operating activities		
Profit for the period + adjustments to accrual-based items	2.4	-34.3
Change in net working capital	71.1	23.2
Total cash flow from operating activities	73.6	-11.1
Cash flow from investments	-1.7	-6.6
Cash flow from financing	-26.0	23.5
<b>Change in cash and cash equivalents</b>	<b>45.8</b>	<b>5.9</b>
Cash and cash equivalents at the beginning of the period	59.2	53.4
Cash and cash equivalents at the end of the period	105.1	59.2

Cash and cash equivalents grew by EUR 45.8 million to EUR 105.1 (59.2) million during the financial year. The main factors that increased cash and cash equivalents were the release of funds from net working capital and the carrying out a rights issue.

Net cash flow from operating activities was EUR 73.6 (-11.1) million, which includes a positive impact of EUR 71.1 (23.2) million due to the decrease in net working capital. Net working capital fell due to the decline in business volume and a significant decrease in developer contracted housing production.

Net cash flow from investments was EUR -1.7 (-6.6) million, of which EUR -0.5 (-4.1) million relates to tangible assets, mainly replacement investments, and EUR -1.4 (-3.6) million to investments related to intangible assets.

Net cash flow from financing was EUR -26.0 (+23.5) million. A total of EUR 39.9 (132.6) million was drawn in loans and EUR 82.3 (90.1) million was repaid. Cash flow from financing includes EUR 19.3 million in net proceeds from the 2020 share issue.





Financial position, EUR million	Excl. IFRS 16 lease liabilities			Incl. IFRS 16 lease liabilities		
	31 Dec 2020	31 Dec 2019	Change	31 Dec 2020	31 Dec 2019	Change
Cash and liquid assets	105.1	59.2	45.8	105.1	59.2	45.8
Interest-bearing liabilities	80.4	142.4	-62.0	113.7	189.2	-75.5
Interest-bearing net debt	-24.7	83.1	-107.8	8.6	129.9	-121.3
Equity ratio, %	43.2%	33.8%	9.4%	38.7%	29.6%	9.1%
Net gearing ratio, %	-19.9%	74.1%	-94.1%	7.0%	115.9%	-108.9%

### New financing agreement on 30 June 2020

Lehto Group Plc signed a new credit facility agreement on 30 June 2020. This agreement replaced Lehto's previous syndicated Revolving Credit Facility (RCF) of EUR 75 million with OP Corporate Bank plc, Nordea Bank plc and Swedbank Ab. When the agreement was signed, EUR 54 million of this facility was in use and the original agreement was set to end on 1 November 2021.

The other party in the new credit facility is the same bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank Ab. The new agreement is for EUR 54 million and will remain in force until 31 December 2022. According to the agreement, some of the credit will be paid back before the end of the contractual period and part of the credit will fall due at the end of the agreement. The agreement includes both partial guarantees and financial covenants on EBITDA, interest-bearing net debt and net gearing. These covenants may also impact the distribution of dividends while the credit facility agreement is in force.

At the end of the review year, EUR 39.0 million of the credit facility was in use and no funds were available to be drawn.

### Rights issue

Lehto Group Plc carried out a rights issue in November-December, in which a total of 39,861,269 new shares in the company were subscribed for, corresponding to approximately 137.3 per cent of the 29,029,967 shares offered in the offering. The offering was thus oversubscribed. A total of 26,944,674 offer shares were subscribed for with subscription rights, in addition to which 12,916,595 offer shares were subscribed for without subscription rights. The subscription price was EUR 0.70 per offer share. Lehto received gross proceeds of approximately EUR 20.3 million from the offering.

As a result of the offering, the total number of shares in the company increased by 29,029,967 shares from 58,309,443 shares to 87,339,410 shares. As a result of the offering, the company received net proceeds of approximately EUR 19.3

million, after offering-related fees and expenses. Trading in the new shares commenced on the Helsinki Stock Exchange on 18 December 2020.

### VAT payment arrangement with the Tax Administration

In July 2020, the Group made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 21.0 million. The VAT payment arrangement was made when the Tax Administration offered companies the possibility to prepare for any potential impacts of the coronavirus pandemic by loaning back VAT paid in spring 2020. The repayment period under the payment arrangement is 22 months and the first instalment was paid in September 2020. The interest rate on the payment arrangement is 2.5%. At the end of the financial year, the obligation related to the payment arrangement was EUR 17.3 million.

## Personnel

The average number of personnel during the review period was 1,115 (1,454). The number of personnel at period end was 1,034 (1,274 on 31 December 2019). About half of the Group's personnel are salaried employees and about half work at construction sites.

On 20 February 2020, the company initiated employee cooperation negotiations as part of its revitalisation programme. As a result of the negotiations, employees were terminated (69), laid off temporarily and transferred to other positions in the Group (29), with a total impact of 98 person years.

On 25 March 2020, Lehto started employee cooperation negotiations on potential temporary layoffs applying to all personnel. These negotiations were carried out due to the coronavirus pandemic, which is expected to have direct, indirect and possibly also long-term impacts on the business environment. According to the company's estimate, the changes caused by the pandemic might be related to delays in project start-ups and disruptions in the availability of materials and subcontracting resources. As a result of the negotiations, measures were initiated, mainly involving part-time layoffs, and implemented in the second half of the year.

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 26 March 2020, Lehto carried out a targeted bonus issue related to the payment of the incentive for the 2017 earnings period of the share-based incentive plan. In the share issue, Lehto Group Plc granted 50,341 treasury shares to 29 key employees of the Lehto Group in accordance with the terms of the incentive plan.

On 29 April 2020, Lehto announced that the Board of Directors will, at its own initiative, reduce its remuneration by 20 per cent from the amounts decided on by the AGM for a five-month period. The reduction in remuneration concerned both the cash and share components. By reducing its remuneration, the Board of Directors supported

the profitability of the company and participated in the same savings actions as the company's management and operative personnel. In addition, the CEO of Lehto Group Plc, the members of the Executive Board and the members of the management teams of the service areas committed to lowering their earnings by 20 per cent for a five-month period. A substantial share of Lehto's salaried employees were either partly or entirely laid off in May-September.

## 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 pipeline renovation modules at its own production facilities. The purpose of developing modules is to enhance building quality and to accelerate the construction process.

The development of modules, components and space concepts is part of continuing operations, and the related costs are largely recorded as an expense in the income statement. Capitalised development expenditure during the financial year amounted to EUR 1.4 (1.0) million. The most significant development outlays concern the design of industrially manufactured products and the development of product factory operations.

## Risks and uncertainty factors

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.

The Group's business operations tie up working capital in inventories and receivables in particular. If the company's business is expanding while large purchase commitments for plots are realised and receivable payments from customers are delayed, the company may find itself in a situation in which 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.

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](http://www.lehto.fi).

### **Key risks during 2021**

Although the coronavirus pandemic has not had significant effects on Lehto's operations thus far, it is expected that the pandemic will continue to create uncertainty in the market and impact on Finland's general economic development.

Lehto estimates that customers' possibilities in obtaining financing for construction projects have become more difficult in 2020 and that their difficulties may delay or even cancel the launch of new construction projects.

In the construction industry, clients and partners are normally granted guarantees through specialised insurance companies. Lehto estimates that it is now harder to obtain such guarantees, which increases the risk of delays in the start-up of construction projects.

Due to the general economic situation and uncertainty, consumers and private investors may be more cautious in making purchase decisions on housing. It is possible that the trend in apartment sales will be more sluggish than expected and that selling prices will have to be lowered in order to promote sales.

As employees work closely together on Lehto's construction sites, coronavirus cases may arise in spite of the preventive measures in place, and this could also slow down progress. Coronavirus cases among subcontractors and goods suppliers could also cause delays to projects. Construction

sites may have to be closed down and work put on hold. As a result, the degree of completion of projects might be lower than expected, delaying the accrual of net sales and operating result.

## **Responsibility and environmental issues**

The construction industry plays a major role in reducing the carbon footprint and cutting down on waste. Lehto wants to renew the construction industry, and sustainable construction will play a major role in the company's future. The aim is to combine smart and sustainable construction and digitalisation. In its development efforts, Lehto is currently focusing on, for example, solutions for wood construction that utilise factory production that is more ecological than traditional construction. Production at factories reduces both construction waste and logistics, including emissions.

Spring 2020 General Meeting elected Helena Säteri to the Board of Directors. As the former Director-General of the Ministry of the Environment, she brings a strong perspective on environmental issues and sustainable construction to the work of the Board. In 2020, Lehto also became a member of the cooperation network of the Green Building Council (GBC) with the aim of contributing to the creation of sustainable construction solutions. GBC and its networks are leading the way in operating models for sustainable development and play an important role in implementing and developing regulations for the industry and their joint adoption. Responsibility is one of the values that guides Lehto's operations.



Lehto's goal is to build efficiently while saving energy and resources, to reduce the material waste generated in construction, and to be a good employer that is fair to everyone. Lehto Group's corporate responsibility comprises three focus areas: responsible construction, personnel wellbeing, and responsible business practices.

The CEO is responsible for Lehto Group's responsibility and the CFO for responsibility reporting. Operational responsibility work is managed on a decentralised basis in accordance with our key focus areas, primarily by the HR Director, Sourcing Director and Legal Counsel. The management team monitors trends in the key indicators of responsibility.

Lehto Group reports to external stakeholders on its responsibility in connection with annual reporting, and our reporting complies with the requirements laid down for non-financial information in the Accounting Act.

## The Group's legal structure

At the end of the financial period, the Group was comprised of the parent company, Lehto Group Plc and its eight operative subsidiaries. In all subsidiaries, the parent company has a 100% shareholding. The Group also comprises temporary real-estate companies or shareholdings in them.

The Group's parent company is not engaged in actual business operations but serves as a hub for a number of shared Group functions which are relevant for the manageability and cost efficiency of the Group's operations. These include human resources management, accounting, coordination of financial affairs, legal affairs, business development, sourcing and purchasing, communications, marketing and information management.

## Shares and shareholdings

Lehto is listed on the official list of Nasdaq Helsinki Ltd. At the end of the financial year, the company had 87,339,410 shares, of which 249,509 were held by the company. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders. The company has 18,020 shareholders.

Lehto carried out a rights issue in November-December, as a result of which the number of shares in the company rose by 29,029,967 from 58,309,443 to 87,339,410. As a result of the offering, the company received net proceeds of approximately EUR 19.3 million, after offering-related fees and expenses. Trading in the new shares commenced on the Helsinki Stock Exchange on 18 December 2020.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 30 December 2020 was EUR 1.35. The highest share issue-adjusted rate of the share during the review period was EUR 2.169 and the lowest rate was EUR 0.983. A total of 45,969,542 shares in the company were traded during the period. The value of the trading was approximately EUR 63 million.

Lehto's Annual General Meeting of 14 April 2020 authorised the Board to decide on the purchase of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company. An authorisation to acquire a maximum of 5,320,000 shares will be valid until 30 June 2021 and an authorisation to acquire 480,000 shares will be valid until 30 June 2023.

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 capital structure, to expand the ownership base, to implement incentive systems, and as a consideration in transactions when the company purchases assets linked to its operations. An authorisation to acquire 5,320,000 shares is valid until 30 June 2021, and an authorisation for 480,000 shares is valid until 30 June 2023. Both authorisations replace any previous authorisations issued by the company relating to share issues and options.

The company did not receive any flagging notifications during the review period.

## Repurchase and transfer of own shares

On 23 March 2020, the company commenced repurchasing the company's own shares to meet its obligations under the share-based incentive plans or for other purposes authorised by the Annual General Meeting. The buyback programme ended on 2 April 2020 and the number of shares repurchased totalled 356,743, representing about 0.61% of Lehto's shares outstanding at that time. A total of around EUR 500,000 was spent on the buyback of own shares.

On 26 March 2020, the company conveyed 50,341 Lehto Group Plc treasury shares to key employees included in the incentive plan in accordance with its terms and conditions. Information on the launch of the plan, including its key terms and conditions, was announced in a stock exchange release dated 20 December 2016.

On 4 May 2020, the company conveyed a total of 56,893

of its own shares to members of the Board of Directors in accordance with the decision taken by the Annual General Meeting and the voluntary reduction of Board remuneration announced on 29 April 2020.

At the end of the financial year, the company held 249,509 treasury shares.

## Decisions by the Annual General Meeting

The Annual General Meeting of shareholders of Lehto Group Plc took place in Oulu on 14 April 2020. The Annual General Meeting approved the financial statements for 2019 and discharged the Members of the Board of Directors, the Chairman of the Board of Directors, and the CEO from liability.

### ***The use of profit shown on the balance sheet and the payment of dividend***

The Annual General Meeting resolved in accordance with the proposal by the Board of Directors that no dividend shall be paid for the financial year that ended on 31 December 2019.

### ***The handling of the Remuneration Policy for governing bodies***

The Annual General Meeting resolved to confirm the Remuneration Policy for the governing bodies as proposed to the Annual General Meeting.

### ***Election and remuneration of the Board of Directors***

The Annual General Meeting resolved that the Board of Directors shall consist of five members. Pursuant to the proposal made by the shareholders nomination committee Mikko Räsänen, Anne Korkiakoski and Seppo Laine were

re-elected and Helena Säteri and Raimo Lehtiö were elected as members of the Board of directors. The term of the Board members will expire at the end of the Annual General Meeting 2021.

The Annual General Meeting resolved that the remuneration of the members of the Board of Directors shall be made in Lehto Group Plc shares and in cash, with approximately 40 per cent of the remuneration paid in shares and the remainder in cash. The yearly remuneration paid to the Chairman of the Board of Directors was resolved to be EUR 69,000 and to the Deputy Chairman and the Members of the Board of Directors EUR 34,500. Should the member of the Board of Directors abstain from accepting the remuneration in shares and in cash, shall the remuneration be paid entirely in cash when it shall be EUR 55,200 for the Chairman of the Board of Directors and EUR 27,600 for the Deputy Chairman and the members of the Board of Directors. In addition, for each Board meeting other than ones held via telephone or email, EUR 750 shall be paid for the Members of the Board, and EUR 1,500 for the Chairman of the Board of Directors.

For each meeting of the Audit Committee other than ones held via telephone or email the members of the Audit Committee shall be paid a remuneration of EUR 400 for the Member of the Committee and EUR 600 for the Chairman of the Committee.

Reasonable travel expenses incurred in connection with Board meetings or Committee meetings shall be paid in accordance with the instructions of the tax authority. The per diem allowances are included in the attendance fee.

### ***Election and remuneration of the auditor***

The audit firm KPMG Oy Ab was re-elected as the auditor. KPMG Oy Ab has informed the company that C.A. Pekka Alatalo would act as the responsible auditor. The auditor's

fee shall be paid on the basis of an invoice approved by the company.

### ***Authorisation of the Board of Directors to decide on the purchase of the company's own shares***

The Annual General Meeting authorised the Board to decide on the purchase of the company's own shares as one or several instalments using assets belonging to the shareholders' surplus, such that the maximum quantity purchased be 5,320,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki Ltd in accordance with its rules or using another method. The consideration paid for the purchased shares should be based on the market price.

The authorisation also entitles the Board of Directors to decide on the purchase of shares other than in proportion to the shares owned by the shareholders (directed purchase). Then, there should be sound financial reasons for the company to purchase its own shares. Shares can be purchased to implement arrangements linked to the company's business operations, or otherwise to transfer or invalidate. The purchased shares can also be stored by the company.

The Board of Directors is authorised to make decisions on all other conditions and circumstances pertaining to the purchase of own shares. The purchase of own shares reduces the shareholders' surplus. The authorisation is proposed to remain valid until the end of the following annual general meeting but in any case, not longer than 30 June 2021.

Separately the Annual General Meeting authorised the Board of Directors to purchase the company's own shares with the aforementioned terms, such that the maximum quantity purchased be 480,000 shares when the purchase is made to execute the company's share-based incentive systems. The authorisation is valid until 30 June 2023.



### **Authorising the Board of Directors to decide on a share issue, in the issuance of options and other special rights to shares as well as the transfer of own shares**

The Annual General Meeting decided to authorise the Board of Directors to decide on the issue of a maximum of 5,320,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as 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 without consideration. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the company's point of view and the benefit of all its shareholders. The Board of Directors is authorised to decide on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares. Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, or when the company purchases assets linked to its operations. The authorisation is proposed to be valid until the end of the following annual general meeting but in any case, no later than 30th June 2021. The authorisation shall replace the company's previous share issue and option authorisations.

Separately the Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 480,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several instalments when the issue is used to implement company's share-based incentive systems. The authorization is valid until 30 June 2023.

## **Decisions of the Extraordinary General Meeting**

Lehto Group Plc held an Extraordinary General Meeting in Kempele on 25 September 2020. The General Meeting took the following decisions.

The Extraordinary General Meeting authorised the Board of Directors to decide on the issue of a maximum of 60,000,000 new shares in order to execute a rights issue. This share issue seeks to improve the company's ability to realise its strategy and develop a construction method based on modular prefabricated elements. These shares will be offered to the company's shareholders for subscription in proportion to their holding of company shares as at the record date of the rights issue. The authorisation further authorises the Board of Directors to secondarily offer any shares that remain unsubscribed to other shareholders or to third parties for subscription. The authorisation may only be exercised for the execution of one rights issue. The Board of Directors is authorised to make decisions on all other conditions and circumstances pertaining to the rights issue.

The authorisation shall remain in force until the end of the next Annual General Meeting, though no further than 30 June 2021. The authorisation shall not overturn any previously granted share issue authorisations.

## **Other significant events during the review period**

**3 February 2020:** Lehto specified its 2019 guidance and gave its guidance for 2020.

**20 February 2020:** publication of the financial statement bulletin for 2019.

**20 February 2020:** Lehto announced that it will continue its share-based incentive plan for key employees in 2020.

**20 February 2020:** publication of the notice to the 2020 Annual General Meeting.

**4 March 2020:** announcement of the publication of the 2019 Annual Report.

**23 March 2020:** Lehto announced that it would start repurchasing its own shares.

**24 March 2020 – 2 April 2020:** announcements concerning the repurchase of own shares.

**7 April 2020:** Lehto reported that it had ended the repurchase of its own shares and had acquired a total of 356,743 shares, representing about 0.61% of Lehto's shares outstanding.

**7 April 2020:** Lehto withdrew its guidance on the 2020 financial outlook due to the uncertainty caused by the coronavirus pandemic.

**14 April 2020:** Lehto announced the resolutions of the 2020 Annual General Meeting and the organisation meeting of the Board of Directors.

**29 April 2020:** Lehto announced that the Board of Directors would decrease its remuneration at its own initiative by 20 per cent over a five-month period. It was reported that Lehto's CEO, members of the Executive Board and management teams of the service areas also committed to decreasing their remuneration in the same way.

**4 May 2020:** Lehto announced that own shares had been transferred to the members of the Board of Directors.

**14 May 2020:** publication of the Business Review for the first quarter.

**30 June 2020:** Lehto announced that it had signed a new revolving credit facility agreement and was planning to

organise a rights issue of EUR 20-25 million by the end of 2020.

**13 August 2020:** publication of the Half-year Financial Report for January-June.

**13 August 2020:** Lehto announced that Juuso Hietanen had been appointed CEO of Lehto Group Plc and that he would start out as CEO no later than within a year. It was reported that the current CEO Hannu Lehto will stay on with the company in a key role with responsibility for development and innovation.

**3 September 2020:** Lehto announced that Antti Asteljoki had been appointed as CCO of Lehto Group Plc and as a member of the Group's Executive Board.

**4 September 2020:** publication of a notice to an Extraordinary General Meeting on 25 September 2020.

**25 September 2020:** publication of the resolutions of the Extraordinary General Meeting.

**28 October 2020:** Lehto announced that Hannu Lehto, Jaakko Heikkilä and Esko Torsti had been appointed as members of the Shareholders' Nomination Committee. The task of the Nomination Committee is to prepare proposals regarding members of the Board of Directors and their fees for the Annual General Meeting 2021.

**12 November 2020:** publication of the Business Review for January-September.

**8 December 2020:** Lehto reported on the dates for its financial reviews in 2021.

## Events after the review 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.

## Outlook for 2021

Lehto estimates that net sales in 2021 will be lower than in previous year and that the operating result will be positive. The accrual of the operating result is expected to be concentrated in the second half of the year.

The outlook is based on the current assessment by the company's management of progress on ongoing construction projects, the trend in sales of housing and business premises, and the start-up schedules of new projects.

The main risks to the development of net sales and operating result in 2021 concern the trend in sales of housing and business premises as well as potential interruptions of construction site operations due to the coronavirus pandemic. It is expected that the pandemic will continue to create market uncertainty as well as impact on both general economic development in Finland and the demand for housing and business premises. For more information on risks and the impacts of the coronavirus pandemic, see the "Risks and uncertainty factors" section of this release.

## 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 equity on the balance sheet of 31 December 2020 amounts to EUR 86,564,458.70, of which the profit for the financial year is EUR -1,964,562.84.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the 1 January–31 December 2020 financial year.

*Vantaa, 17 February 2021*

**Lehto Group Plc**

**Board of Directors**