

Financial Statements 2021

**Improved margins in housing projects,
significant losses in business premises projects**

CEO's Review

Lehto's year 2021 in brief

High rise in the prices of building materials.

HOUSING

- Favourable earnings trend, better than budgeted.
- Strong focus for wood construction.
- Housing start-ups grew by 22%

BUSINESS PREMISES

- Big losses from the projects.
- Problems are identified, strong focus in corrective actions.

Corrective actions ongoing, in several sectors at once

BACKGROUND

The company is repairing the damage of the previous strong growth.

Changes do not show up quickly in profitability.

Strong focus in corrective action in several sectors.

ACTIONS

Focus in operations

Operating practises

Use of capital and cash flow

Updating of the strategy

Strengthening the competence

TARGET

Profitability



Year 2021 in brief

In 2021, **net sales** were down 20.0% on the previous year and amounted to EUR 435.9 (544.7) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.

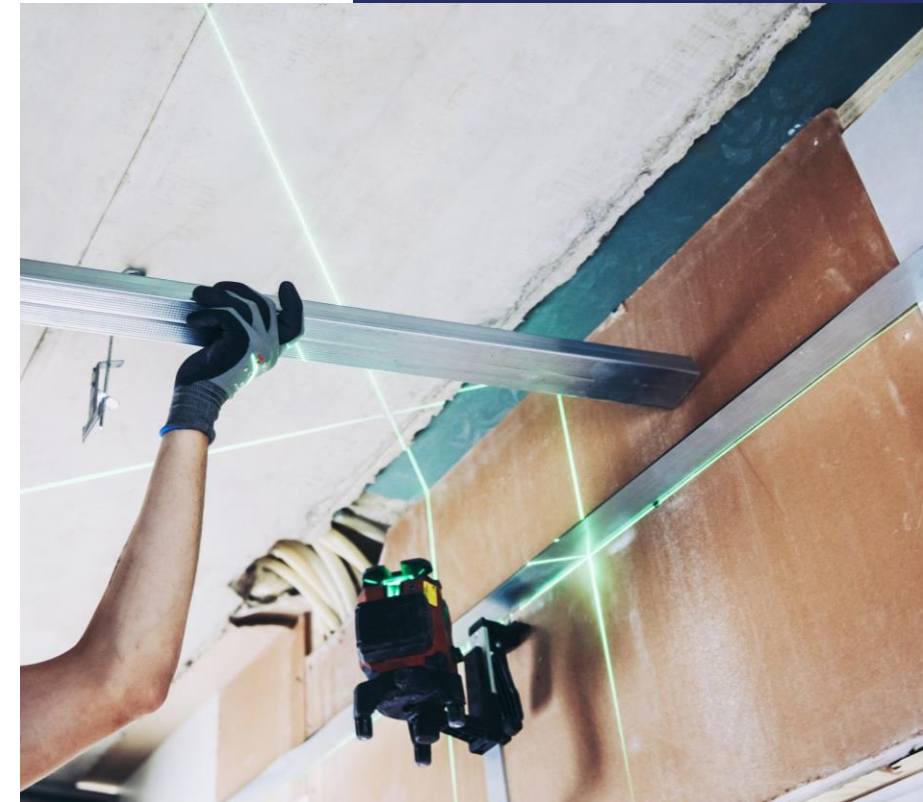
The **operating result** from continuing operations was EUR -24.0 (0.1) million. This operating loss was primarily the result of the significant losses made in six business premises projects. Their project margins had a total negative impact of about EUR -24 million in 2021. As a whole, the Business Premises service area had a negative impact of about EUR -29 million on the Group's 2021 operating result.

In spite of increased material costs, the Housing service area exhibited a **favourable earnings** trend that was better than budgeted.

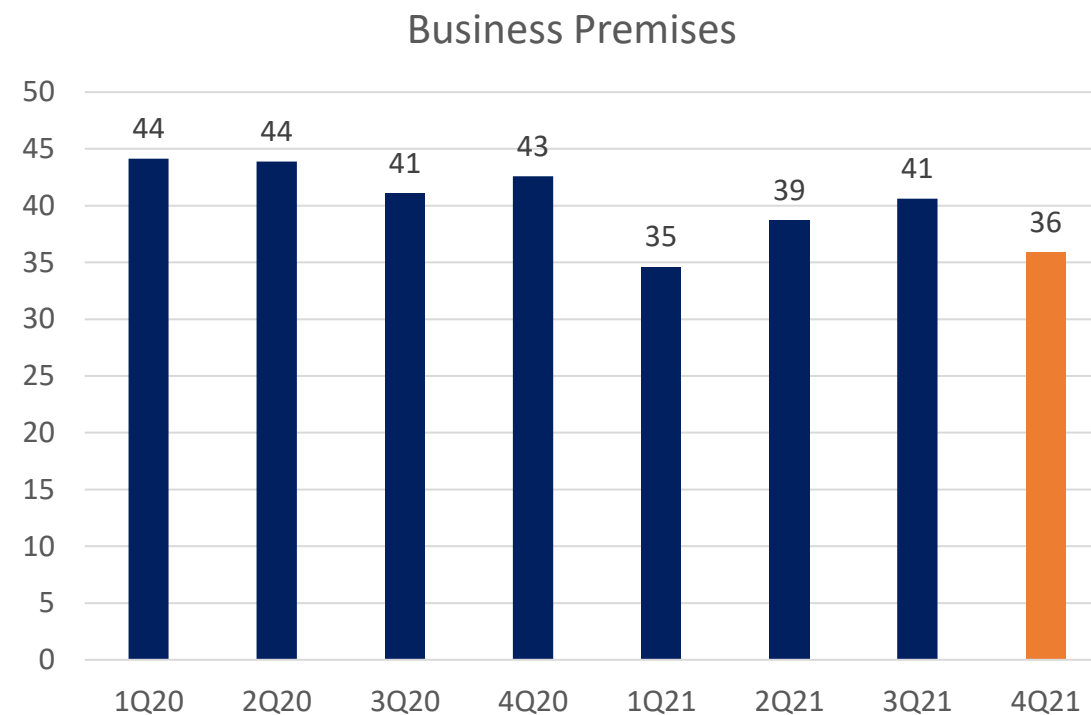
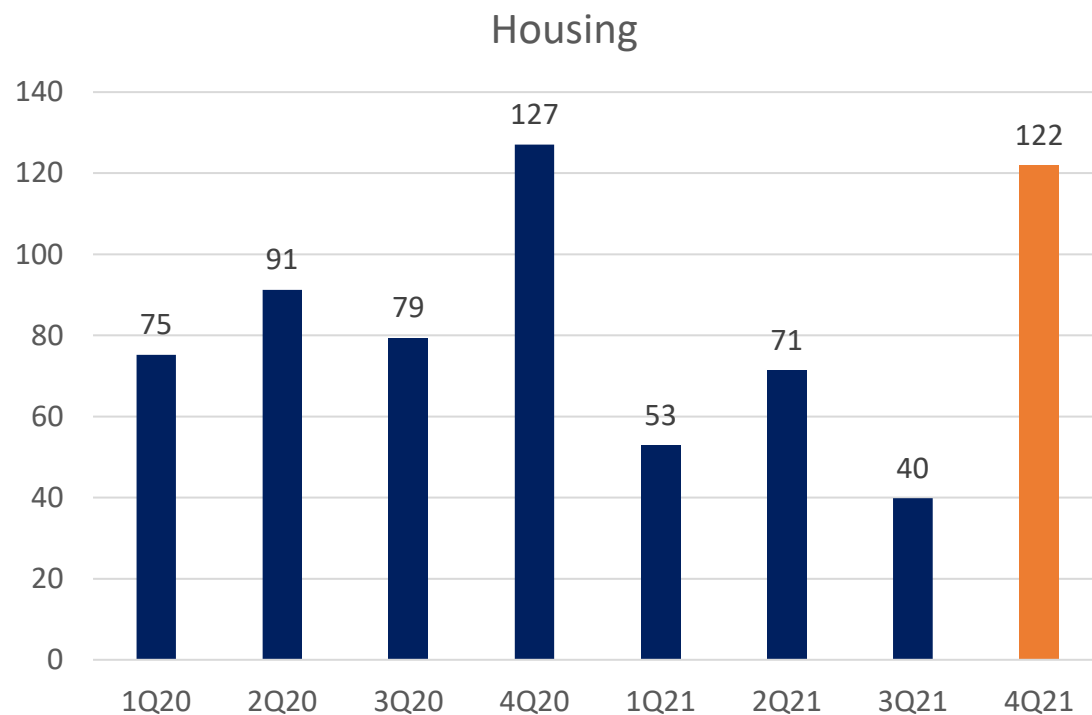
The order backlog rose to EUR 474.1 million (growth 11%).

Net sales by service area, EUR million

Service area	1-12/2021	1-12/2020	Change
Housing	286.1	372.9	-23.3%
Business Premises	149.8	171.7	-12.8%
TOTAL	435.9	544.7	-20.0%

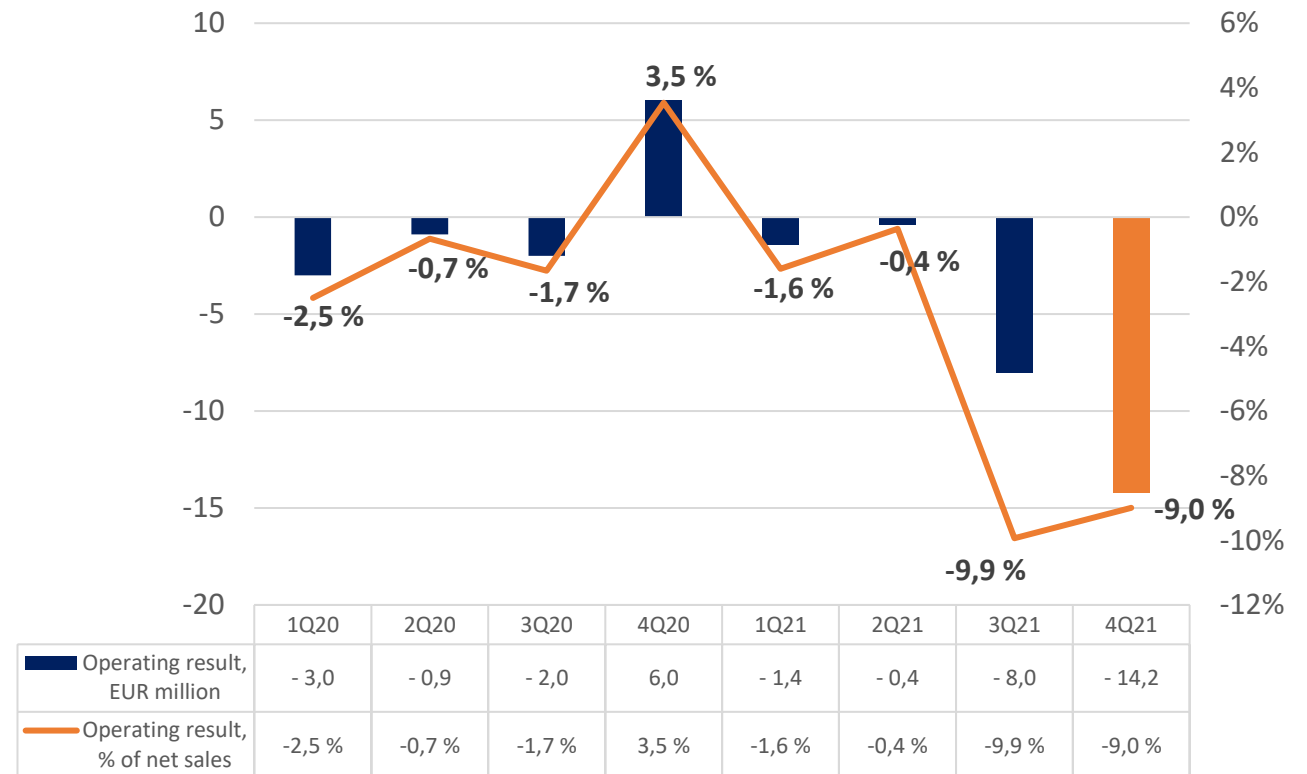


Net sales by quarter and service area, EUR million



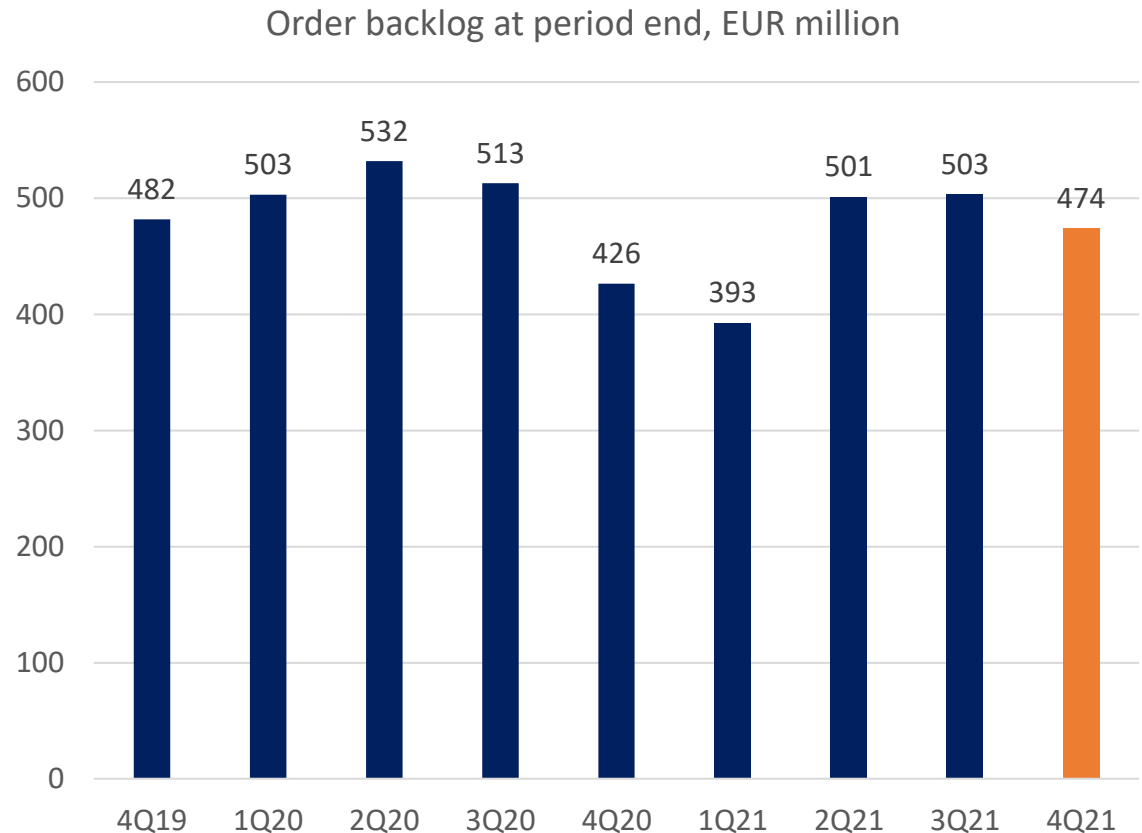
4Q operating result, continuing operations

- The operating result from continuing operations in 4Q was -14.2 EUR million (6.0 EUR million 4Q/2020)
- This operating loss was primarily the result of the significant losses made in six business premises projects. Their project margins had a total negative impact of about EUR -24 million in 2021. As a whole, the Business Premises service area had a negative impact of about EUR -29 million on the Group's 2021 operating result.
- In spite of increased material costs, the Housing service area exhibited a favourable earnings trend that was better than budgeted.



Order backlog

- The order backlog rose to EUR 474.1 million (EUR 426.3 million on 31 December 2020).
- There was growth in both service areas.
 - Housing EUR 272.1 million (232.1)
 - Business Premises EUR 202.0 million (194.2)
- Order backlog grew by 11%.



Balance sheet

- Inventories rose mainly due to increase in IFRS 16 assets.
- The decrease in cash was due to growth in net working capital and the repayment of financial liabilities.
- Financial liabilities declined to EUR 45.8 million.

Consolidated balance sheet, EUR million	31 Dec 2021	31 Dec 2020
Non-current assets	49.2	63.4
Current assets		
Inventories, excluding IFRS 16 assets	108.3	107.7
Inventories, IFRS 16 assets	86.6	28.0
Current receivables	90.1	79.7
Cash and cash equivalents	32.8	105.1
Total assets	367.0	383.8
Equity	90.9	123.6
Financial liabilities	45.8	80.4
Lease liabilities	90.4	33.3
Advances received	32.4	64.4
Other payables	107.4	82.1
Total equity and liabilities	367.0	383.8

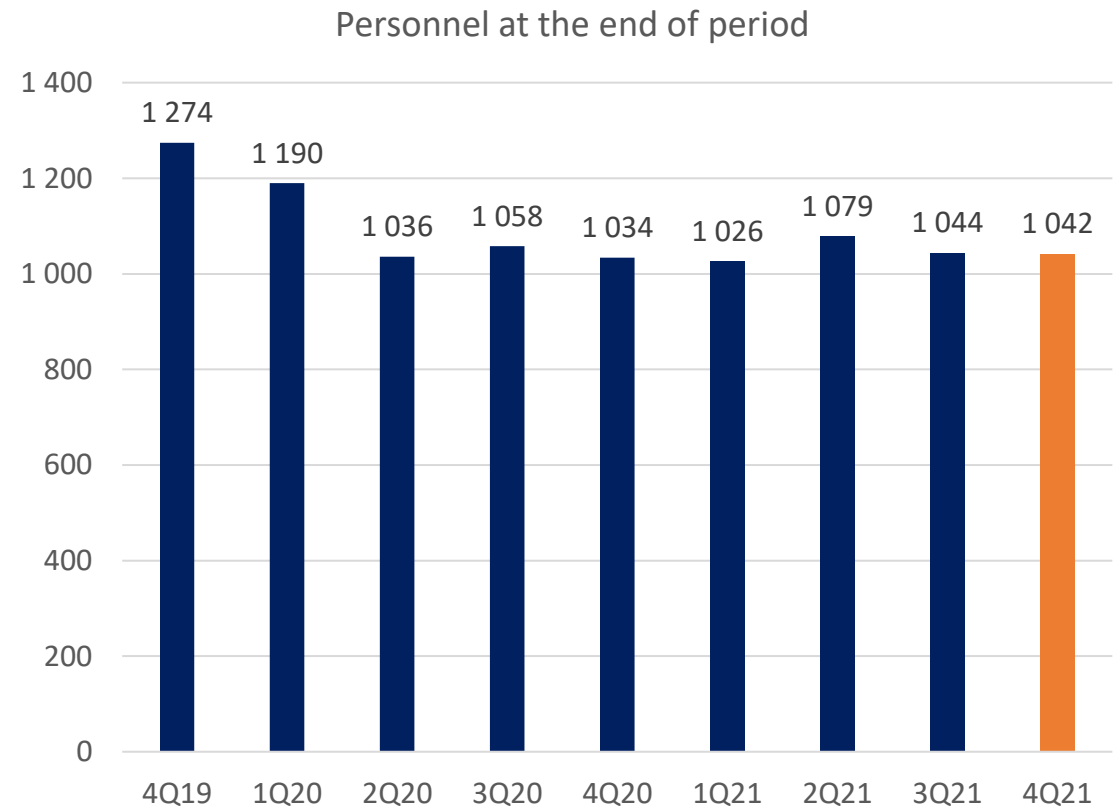
Cash flow statement

- The increase in net working capital was mainly due to lower advances received. In the last quarter of the year, several consumer housing projects were completed, and the related advances received were eliminated.
- Cash flow from investments consisted mainly of replacement investments.
- Cash flow from financing activities consists of repayments of loans and payments of lease liabilities in accordance with IFRS 16.

Cash flow statement, EUR million	1-12/2021	1-12/2020
Cash flow from operating activities		
Result for the financial period + adjustments	-14,9	2,4
Change in working capital	-25,6	71,1
Cash flow from operating activities, total	-40,5	73,6
Cash flow from investments	-0,7	-1,7
Cash flow from financing	-31,1	-26,0
Change in cash and cash equivalents	-72,3	45,8
Cash and cash equivalents at the beginning of the year	105,1	59,2
Cash and cash equivalents at the end of the period	32,8	105,1

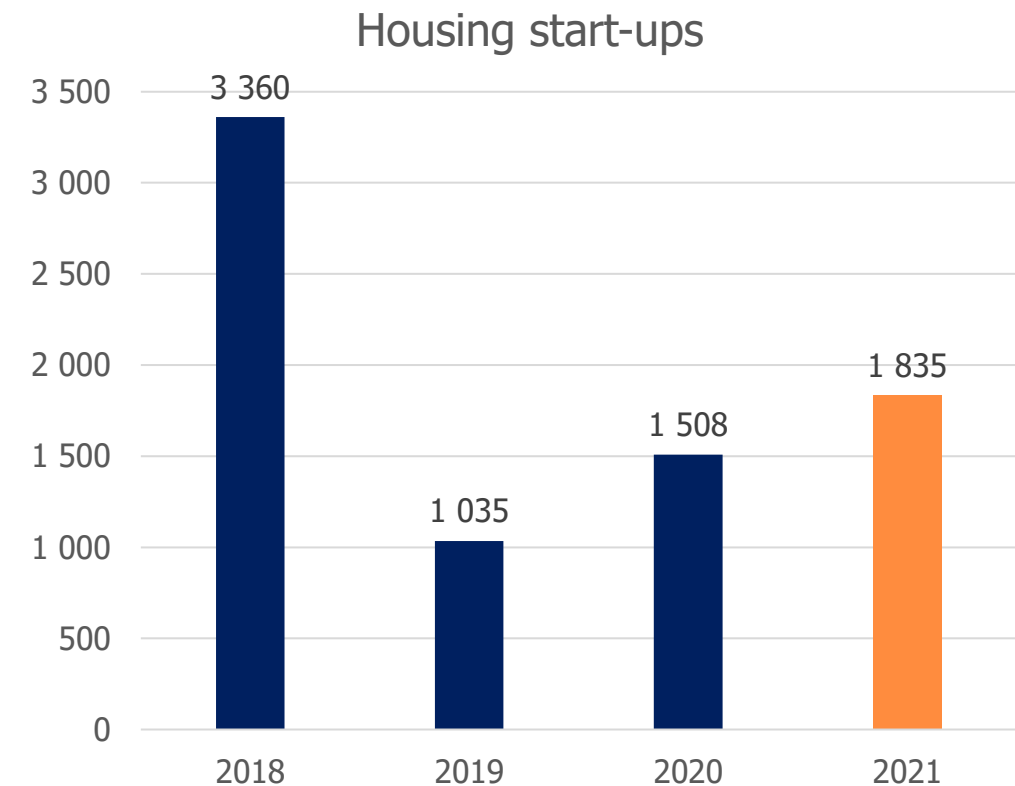
Personnel

- The number of personnel at period-end was 1,042 (1,034).
- The average number of personnel during the period was 1,043 (1,115).



Housing

- Net sales decreased by 23.2% from the comparison period to EUR 286.1 (372.9) million.
- A total of 1,848 (2,110) housing units were sold during the review period, most of which were sold to investors.
- During the review period 1,277 (1,459) housing units were completed and the construction of 1,835 (1,508) new units was started.
- The pipeline renovation business has remained stable and 8 (11) were completed during the review period. 15 (11) properties were under construction at the end of the review period.



Care home construction

- A total of 4 (4) care homes were completed during the period. At period-end, 1 (3) care home was under construction.
- Care home and assisted living projects are in the negotiation phase as both individual sites and as part of larger projects in city centres and suburban areas.
- Lehto expects demand for care homes and assisted living to rise in the longer term.



Business Premises



Net sales declined by 12.8% a year-on-year to EUR 149.8 (171.7) million.

18 (29) business premises was completed and handed over during the review period.

Six significant loss-making projects, a loss of EUR 29 million in the service area.

At the end of the review period, 15 (15) projects were under construction, most notably:

- A local service centre in Kivistö, Vantaa
- Three hotel projects in the Greater Helsinki Area
- An office building for Fennovoima in Pyhäjoki, and
- A pulp warehouse in the Port of Kemi.

The order backlog rose to EUR 202.0 million (EUR 194.2 million on 31 December 2020).

Business Premises:

Focus on risk management and profitability

- **Project selection and offering**

- We select projects through profitability and risk managements.
- More detailed attention is paid to the analysis of contract terms, risks, cost changes, plan readiness and resource needs.
- Profitability targets have been refined.

- **Harmonization of policies**

- Specifying the decision-gates
- Development and implementation of process tools
- Ensuring start-up requirements, cost forecasting and improving site production plans
- Project management will be improved through guidance and training

- **Streamlining the organization**

- Management, responsibilities and targets clarified

Swedish operations

We have closed down our business in Sweden.

We focus on developing the competitiveness of our business in Finland.



Outlook for 2022

According to Statistics Finland building cost rose by 10.2% in December 2021 from one year back and the costs of materials went up by 14.8%. Lehto has ongoing or starting projects with fixed sales price and the significant increase of construction costs will have negative effect on projects' profitability also in year 2022. Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks.

Lehto is converting some consumer housing projects to investor projects where net sales and margins are booked according to percentage of completion. This causes some net sales, margins and cash flows from the projects to accumulate earlier in year 2022 instead of 2023.

The most important target for the year 2022 is to improve profitability where the project risk management in all entities is the key thing. The company will continue the earlier commenced actions of managing the project risks and improving the operative efficiency. These actions are estimated to have positive effect on profitability, starting from the second half of 2022, but especially on year 2023.

Lehto estimates that Net Sales from continuing operations in year 2022 will be on at level of 2021 (EUR 435.9 million in 2021) and operating result from continuing operations to be EUR 5-10 million negative (EUR -24.0 million in 2021). Lehto will disclose its long-term strategic targets during the second quarter 2022.

Additional information of risks and uncertainties is available in the Financial Statement Bulletin 2021.

Changes in Group Executive Board H1/2022

LEHTO

- Matti Koskela for head of the Business Premises service area 1.1.2022.
- Tero Karislahti for the head of the Housing service area 10.6.2022.
- The Group's development and marketing functions have been transferred to the Housing service area to streamline and to improve competitiveness.
 - Arto Tolonen, CDO, and Antti Asteljoki, CCO, will leave the Group Executive Board.
 - Antti Asteljoki will take over the position of Marketing and Customer Relationship Director in the Housing service area with the responsibility for leading the new Customer Relations unit.

Thank you!

