

Report by the Board of Directors

Lehto Group Plc





Summary 2021

Group	1-12/2021	1-12/2020
Net sales from continuing operations, EUR million	435,9	544,7
Change in net sales from continuing operations, %	-20,0 %	-18,2 %
Operating result from continuing operations, EUR million	-24,0	0,1
Operating result from continuing operations, % of net sales	-5,5 %	0,0 %
Result from continuing operations, EUR million	-25,7	-5,1
Result from discontinued operations, EUR million	-6,9	-3,1
Result for the period, EUR million	-32,6	-8,2
Order backlog at period end, EUR million	474,1	426,3
Earnings per share, EUR	-0,37	-0,12
Cash and cash equivalents, EUR million	32,8	105,1
Financial liabilities, EUR million	45,8	80,4
Lease liabilities, EUR million	90,4	33,3
Equity ratio, %	27,2 %	38,7 %
Net gearing ratio, %	113,8 %	7,0 %
Equity ratio, excl. IFRS 16 lease liabilities, %	37,3 %	43,2 %
Net gearing ratio, excl. IFRS 16 lease liabilities, %	14,4 %	-19,9 %

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.
- Construction of 1,835 new apartments began during the financial year, which is 21.7% more than in the previous year (1,508). At the end of the review period, there were 2,002 (1,444) apartments under construction, the majority of which are related to projects for institutional investors.
- The result for the financial year was EUR -32.6 (-8.2) million, of which EUR -25.7 (-5.1) million was the full-year result for continuing operations. The result for discontinued operations in Sweden was EUR -6.9 million (-3.1 million in 2020).
- At the end of the financial year, cash and cash equivalents stood at EUR 32.8 (105.1) million and interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 45.8 (80.4) million. In addition to the loss-making result, cash and cash equivalents were reduced by loan repayments and growth in net working capital. The company is currently negotiating the renewal of its RCF financial agreement, which will end on 31 December 2022.
- The order backlog rose to EUR 474.1 million (EUR 426.3 million on 31 December 2020). The order backlog grew in both service areas.
- The Board of Directors proposes that no dividend be paid for the financial year.



NET SALES BY SERVICE AREA, EUR MILLION

	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 %

Business objectives and focus areas

Under the leadership of its new CEO, who started in May 2021, Lehto has assessed its business objectives and priorities for the next few years and determined the needs for change and development.

The company's business will continue to revolve around its strategic cornerstones: design management, repeatable operating methods and solutions, industrial prefabrication and digital solutions. However, in order to implement its strategy effectively, Lehto will need to clarify its operating culture and methods, and these areas will be a focus area for development over the coming years.

In housing construction, the focus for the next few years will be on concrete apartment buildings, but wooden apartment buildings are expected to account for a growing share of total production. Lehto will be investing in both wooden construction and sustainable, carbon-neutral construction. Although more attention will be paid to the company's project and planning development, the results of this work will not be seen for several years.

The market for business premises construction is forecast to shift increasingly towards hybrid projects in which different types of users share the same properties.

The company will be strengthening its expertise in the implementation of these kinds of hybrid projects. Lehto has profound experience in the successful implementation of hall-like retail, logistics, sports and warehouse buildings, and wants to both utilise this existing experience and further develop its expertise.

The company will evaluate and possibly revise its strategic choices during the second quarter of 2022. Over the next few years, Lehto will focus on improving the profitability and competitiveness of projects. Profitability will be moderate, as the company is still in the investment phase and is focusing on enhancing its competitiveness and sustainable construction.

Business environment and business development in 2021

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

According to the estimate published by the Ministry of Finance in January 2022, Finland's GDP grew by 3.4% in 2021; it is forecast that growth will continue this year at a level of around 3.0%. A high saving rate and optimism among consumers have paved the way for rapid growth in private consumption and thereby to an increase in private investments. However, inflation and the threat of rising interest rates pose uncertainty to the forecasts. Public finances are still dominated by a structural imbalance between income and expenditure – this year, the national debt will rise to a record figure of EUR 136 billion. This increases risks in public finances.

The year-on-year change in consumer prices calculated by Statistics Finland was 3.5% in December 2021 and the annual rise in construction costs was as much as 10.2%. Costs of materials grew by 14.8% year-on-year and labour costs by 6.5%. Prices of wood and board products, electronic components and hard plastic products rose steeply and there were occasional problems with their availability. Likewise, the surging prices of energy towards the end of the year surprised the construction products industry. Some large suppliers have demanded that a special energy supplement should be added to contract prices.

In its business cycle review published in October 2021, the Confederation of Finnish Construction Industries RT expected to see small growth of 1-2% in 2021, above all due to the increase in housing construction. According to preliminary estimates, the total number of housing starts rose to 44,000 in 2021, of which privately financed housing accounted for 35,000 units. In 2022, start-ups will remain at

a high level of 40,000 (32,000 privately financed). Investor interest in housing continues to be high – the attractiveness of wooden apartment buildings in particular has risen among investors. There has been a growing need for space at home due to the increase in telecommuting caused by the coronavirus pandemic, but the rapid ongoing trend in costs, material and resource availability problems and tighter EU regulation concerning the terms and conditions of construction-stage financing may slow down housing production significantly.

The construction industry estimates that the construction of business premises swung to growth in 2021 due to the construction of industrial and warehouse facilities. In business and office construction, the coronavirus crisis led to uncertainty concerning the utilisation of space, which resulted in a year-on-year fall of almost 30% in the volume of new construction, but this decline will probably come to a halt in 2022. Start-ups in public service construction slowed down in the case of hospital and educational buildings. Growth is forecast for buildings in the care sector in 2022, while the construction of educational premises will most likely remain at the 2021 level.

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.

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 Lehto's standardised approach to production, the residential properties are architecturally diverse. Residential projects are implemented using the PUU (WOOD) and KIVI (STONE) concepts developed by the company. Low-carbon solutions are considered to be an even more important competitive factor in the development of the concepts going forward.

The Housing service area is focused mainly on developer-contracted production where 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, private and institutional investors and funds.

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 strategy period, Lehto seeks to increase the share of its production accounted for by 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 2021

The Housing service area's net sales experienced a year-on-year decrease of 23.3% to EUR 286.1 (372.9) million. In particular, the number of consumer projects recognised as revenue declined during the period. The volume of investor projects was also lower than in the comparison period. A total of 1,848 housing units were sold during the review period, most of which were built through investor projects.

Sold housing units during the review period

	1-12/2021	1-12/2020
To investors	1,529	1,582
To consumers	319	528
Sold housing units during the review period, total	1,848	2,110

During the period, 1,277 (1,459) housing units were completed and the construction of 1,835 (1,508) new units was started. The start-ups were located in Southern Finland, Western Finland and Northern Finland. There were 2,002 (1,444) housing units under construction at the end of the review period.

Housing units under construction

	1-12/2021	1-12/2020
Under construction at the beginning of the period	1,444	1,485
+ started up during the period	1,835	1,508
- postponed project	0	-90
- completed during the period	-1,277	-1,459
Housing units under construction, total	2,002	1,444

At the end of the review period, 456 housing units were either under construction or completed yet unsold. Of these, 26 were completed, unsold apartments. Although housing will continue to focus on investor projects, efforts are being made to moderately increase the share of consumer projects. In an investor project, all the housing units are considered to have been sold at the time of signing.

Unsold housing units

	1-12/2021	1-12/2020
Under construction	430	118
Completed	26	56
Unsold housing units, total	456	174

The Housing service area's order backlog stood at EUR 272.1 million at the end of the review period (EUR 232.1 million on 31 December 2020). During the review period, several properties were sold to institutional investors and consumer projects were started in the Helsinki Metropolitan Area, Turku, Tampere, Oulu and Rovaniemi. The housing production order backlog includes the proportion of investor projects that have been started but have not yet been recognised as net sales. A consumer project is included in the order backlog once the decision to start construction has been made and the contract for the project has been signed.

During the review period, among other things, a complex of three housing companies and five separate apartment buildings, with more than 300 apartments and business premises, was completed in Kalasatama, Helsinki.

Demand for housing construction remained good in spite of the uncertainty arising from the coronavirus pandemic. Several agreements with investors were signed during the review period for housing projects and also for care homes

and assisted living projects as part of a housing project.

The availability and price of financing are still slowing down start-ups of consumer projects.

The volume of care home construction was higher than in the comparison period, as some assisted living units were included in housing construction projects. A total of 4 (4) care homes were completed during the period. At period-end, 1 (3) care home was under construction, as well as some assisted living units as part of housing construction projects. 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.

The pipeline renovation business has remained stable and 8 (11) projects were completed during the review period. Fifteen (11) 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 pandemic. The required communication with housing companies and their shareholders has been carried out remotely. Demand has remained good and in the company's opinion the need for pipeline renovations will continue to be steady in the future.

On 16 December 2021, Lehto announced that Tero Karislahti, 39, had been appointed EVP of the Housing service area and a member of the Group Executive Board as of 10 June 2022. Karislahti has a master's degree in technology and 18 years' experience in a variety of positions in the YIT construction group. Since 2015, Karislahti has been working in management positions in housing construction, including as regional director.



BUSINESS PREMISES

In the Business Premises service area, Lehto builds office and retail premises; logistics, warehouse and production facilities; leisure facilities; large shopping and activity centres; and schools and daycare centres.

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 and cities, especially 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.

Business development in 2021

The service area's net sales experienced a year-on-year decrease of 12.8% to EUR 149.8 (171.7) million. Net sales fell in the school and daycare business in particular as a result of Lehto's more selective approach to projects, but net sales from hall-like building projects also decreased due to a decline in the number of projects.

Eighteen business premises projects were completed and handed over during the review period (29 projects in 2020). At the end of the period, 15 (15) projects were under construction, most notably a local service centre in Kivistö,

Vantaa; a twin tower in Malmi, Helsinki; an office building for Fennovoima in Pyhäjoki, a pulp warehouse at the Port of Kemi and school projects in Ivalo and Kouvola.

New contract agreements valued at EUR 157.6 million were signed during the period and the order backlog rose to EUR 202.0 million (EUR 194.2 million on 31 December 2020). The most significant agreements signed were for a multispace office building in Tikkurila, Vantaa; a local service centre in Kivistö; a pulp warehouse at the Port of Kemi; and an office for Metsä-Fibre's bioproduct mill in Kemi. The construction site for the multispace office building in Tikkurila is being started up in spring 2022, and the other projects were under construction at the end of the review period.

The school and daycare centre business performed in line with plans during the review period. One (8) project was handed over during the review period and two (2) school projects are under construction: in Ivalo and Kouvola. The Ivalo 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. The Sarkola School in Kouvola will be implemented as a turnkey project.

Six of Lehto's business premises projects are significantly unprofitable. Their project margins had a total negative impact of about EUR -24 million in 2021. Two are renovation projects (approx. EUR -10 million), two are hotel projects (approx. EUR -4 million), one is an office project (approx. EUR -8 million), and one is an industrial property (approx. EUR -2 million). The losses arose from shortcomings in project preparation, problems and delays in project implementation, agreeing on contract prices at an early stage, and increased material costs. Lehto decided to discontinue

its renovation business in 2019, and the commitments related to the two renovation projects in question date from 2017–2019.

Lehto has developed the Hippos2020 project with the City of Jyväskylä. Uncertainties related to the project have increased due to the coronavirus crisis, but Lehto and the City of Jyväskylä are still developing the project.

Lehto has implemented operational changes to improve project risk management in the Business Premises service area, and these will be implemented in early 2022 under the leadership of the service area's new EVP. When evaluating prospective projects, the company will pay particular attention to their suitability with respect to the company's resources and strategy. The company is also planning to make structural and operational changes aimed at reducing its cost level.

SWEDISH OPERATIONS

On 31 December 2021, Lehto announced the discontinuation of its operations in Sweden. The reason for this decision is Lehto's need to focus on developing the competitiveness of its business in Finland, coupled with low business volumes in Sweden. In 2017–2020, Lehto carried out two construction projects in Sweden and also developed some housing construction projects. In 2020–2021, Lehto was developing a type of wooden apartment building suited to the Swedish market and a pilot project has been prepared. The results of this development work can also be utilised in Finland.

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. Products are also sold in small quantities 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.

Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii, totalling about 50,000 m². At the end of the review period, 253 people worked in factory operations (236 on 31 December 2020). Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.



Balance sheet and financial position

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

The balance sheet total fell slightly from the 2020 closing date to EUR 367.0 million. The key figures for financial standing and indebtedness weakened during the year, as shareholders' equity and cash and cash equivalents decreased due to the loss-making result. Cash and cash equivalents were also weakened by loan repayments of EUR 28.7 million and an increase of EUR 25.6 million in working capital. The equity ratio (taking lease liabilities into consideration) stood at 27.2% (38.7% on 31 December 2020) and the net gearing ratio was 113.8% (7.0% on 31 December 2020). The equity ratio without the lease liabilities under IFRS 16 stood at 37.3% (43.2%) and the net gearing ratio was 14.4% (-19.9%).

Assets

Non-current assets amounted to EUR 49.2 million at the end of the review period (EUR 63.4 million on 31 December 2020). Non-current assets include goodwill of EUR 4.6 (4.6)

million, EUR 10.6 (11.4) million in factory buildings and EUR 3.9 (4.9) million in machinery and equipment. The company recorded a EUR 1.8 million impairment included in intangible assets in the balance sheet on product development activities for a type of wooden apartment building suited to the Swedish market.

Inventories rose to EUR 194.9 (135.7) million, mainly due to a EUR 58.2 million increase in inventories in accordance with IFRS 16. Current receivables rose slightly to EUR 90.1 (79.7) million and included trade receivables of EUR 51.6 (46.3) million and percentage-of-completion receivables of EUR 36.6 (20.5) million. Cash and cash equivalents totalled EUR 32.8 million on 31 December 2021 (EUR 105.1 million on 31 December 2020). The decrease in cash and cash equivalents was mainly due growth in net working capital and also the repayment of financial liabilities.

Equity and liabilities

As a consequence of the loss for the financial year, shareholders' equity fell to EUR 90.9 (123.6) million during the period. Financial liabilities excluding lease liabilities declined to EUR 45.8 million during the review period (EUR 80.4 million on 31 December 2020).

The table below presents a breakdown of interest-bearing liabilities at the balance sheet date:

Interest-bearing liabilities	31 Dec 2021	31 Dec 2020
Revolving credit facility (RCF)	25.1	39.0
Project-specific loans	3.2	5.0
RS loans related to unsold apartments in developer contracted housing projects	7.4	13.2
Investment loans	4.7	5.8
VAT payment arrangement	5.3	17.3
Financial liabilities, total	45.8	80.4
IFRS 16 lease liabilities	90.5	33.3
Interest-bearing liabilities, total	136.3	113.7

IFRS 16 lease liabilities are based on the company's lease payment obligations. In line with IFRS 16, 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 32.4 (64.4) million. Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales. Other liabilities rose to EUR 107.4 (82.1) million. They include liabilities related to ordinary business operations, such as EUR 46.0 (36.1) million in trade payables and EUR 8.1 (9.6) million in VAT liabilities.

Cash flow statement, EUR million	1-12/2021	1-12/2020
Cash flow from operating activities		
Profit for the period + adjustments to accrual-based items	-14.9	2.4
Change in net working capital	-25.6	71.1
Total cash flow from operating activities	-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 period	105.1	59.2
Cash and cash equivalents at the end of the period	32.8	105.1

Cash and cash equivalents decreased by EUR 72.3 million to EUR 32.8 (105.1) million during 2021. The main contributing factors were an increase in net working capital and the repayment of financial liabilities.

Net cash flow from operating activities was EUR -40.5 (+73.6) million, which includes a negative impact of EUR 25.6 (70.9) million resulting from growth in net working capital. The increase in net working capital was caused by a decrease in advances received and other non-interest-bearing liabilities. Net cash flow from investments was EUR -0.7 (-1.7) million, of which EUR -0.4 (-0.5) million relates to tangible assets, mainly replacement investments, and EUR -0.8 (-1.4) million to investments related to intangible assets. Net cash flow from financing was EUR -31.1 (-26.0) million. No new loans were withdrawn during 2021 (EUR 39.9 million in 2020), but loan payments totalling EUR 28.7 (82.3) million were made.





Financial position, EUR million	Excl. IFRS 16 lease liabilities			Incl. IFRS 16 lease liabilities		
	31 Dec 2021	31 Dec 2020	Change	31 Dec 2021	31 Dec 2020	Change
Cash and liquid assets	32.8	105.1	-72.3	32.8	105.1	-72.3
Interest-bearing liabilities	45.8	80.4	-34.5	136.3	113.7	22.6
Interest-bearing net debt	13.1	-24.7	37.7	103.5	8.6	94.9
Equity ratio, %	37.3%	43.2%	-6.0%	27.2%	38.7%	-11.5%
Net gearing ratio, %	14.4%	-19.9%	34.3%	113.8%	7.0%	106.9%

Key financing agreements

Revolving credit facility (RCF)

Lehto has a Revolving Credit Facility (RCF) with a bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank AB. The RCF is in force until 31 December 2022 and on the balance sheet date EUR 25.1 million of the facility was in use. No further funds can be withdrawn from the RCF. 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 as well as other covenants. These covenants may also impact the distribution of dividends while the RCF is in force.

At the end of the financial year, the covenant terms of the RCF were not met, and Lehto had permission from the bank syndicate to temporarily exceed the covenant limits

set in the agreement. On the closing date, Lehto was in negotiations with the financing banks to refinance the RCF. The company has agreed with the banks that 11 March 2022 is the deadline by which the company and the banks will seek to create a financing solution that will enable the company to implement its strategy.

VAT payment arrangement

In July 2020, Lehto 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 remaining commitments under the payment arrangement amounted to EUR 5.3 million.

Personnel

The average number of Group personnel during the review period was 1,043 (1,115 in 2020). The number of personnel at period-end was 1,042 (1,034). About half of the Group's personnel are salaried employees and about half work at construction sites.

On 31 March 2021, Lehto carried out a targeted bonus issue related to the payment of the incentive for the 2018 earnings period of the share-based incentive plan. In the share issue, Lehto Group Plc granted 69,544 treasury shares to key employees of the Lehto Group in accordance with the terms of the incentive plan.

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.

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 0.7 (1.4) 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 is one of the 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. If 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 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.

Key risks related to year 2022

During the year 2021, the prices of many construction materials increased and there were issues with the availability of certain materials. This applies to wood, processed

wood, concrete elements, insulation and technical building components in particular. The realisation of these risks could have a significant impact on Lehto's full-year net sales and operating result for 2022. It is possible that prices will remain high or continue to rise, and there may also be problems with the availability of materials used in the manufacture of Lehto's prefabricated elements.

Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks.

The coronavirus pandemic is still causing general uncertainty in the customer and financing market, which may cause demand for housing to weaken, and sales prices may have to be lowered to promote sales. It is still possible that uncertainty will cause business premises customers to delay their investment decisions.

In recent years, it has been more difficult to obtain debt financing and guarantees for construction projects. If Lehto does not obtain debt financing, the company will not be able to launch new projects, which may lead to delays and further decreases in net sales and the operating result.

Lehto is currently working on both construction contracts and developer-contracted projects in both the Housing and Business Premises service areas. The consistency of project cost estimates, the progress and timing of sales of these projects have an impact on revenue and operating profit accumulation.

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 on climate change mitigation and adaptation, and in reducing the amount of 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. Lehto is currently developing, for example, solutions for wood construction that utilise factory production that is more ecological than

traditional construction. Production at factories makes it possible to reduce both waste and emissions.

Helena Säteri is member in the Board of Directors. As a 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. Lehto is a member of the cooperation network of the Green Building Council Finland (FIGBC) with the aim of contributing to the creation of sustainable construction solutions. FIGBC and its networks are guiding the way in operating models for sustainable development.

Responsibility is central value 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 EVCs of housing, business premises and factory production, and by the Chief Procurement Officer in the case of centralized purchasing. Responsibility work related to personnel is managed primarily by the HR director. 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 nonfinancial 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.

Impacts of the Covid-19 pandemic

In spite of the exceptional circumstances caused by the pandemic, the company's business has continued to perform relatively well. The implementation of some of the company's projects has been slightly delayed due to coronavirus infections. Project-related uncertainties have increased due to the coronavirus crisis, but demand for housing construction has remained good in spite of this. The ongoing coronavirus pandemic is still causing uncertainty in the market, which may cause demand for construction to weaken, and sales prices may have to be lowered to promote sales.

Shares and shareholdings

Lehto is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of December was 87,339,410

and the company had 18,061 shareholders. The company holds 179,965 of its own shares. 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 31 December 2021 was EUR 0.86. The share's highest rate during the review period was EUR 2.305 and its lowest rate was EUR 0.721. A total of 68,750,986 shares in the company were traded during the period with a trading value of approximately EUR 93 million.

Lehto's Annual General Meeting of 28 May 2021 authorised the Board to decide on the purchase of a maximum of 8,733,000 of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company.

The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 8,733,000 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. 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 cogent financial reason for it from the point of view of the company or, in case of a bonus issue, a particularly cogent financial reason from the point of view of the company and the benefit of all its shareholders. The Board of Directors decides 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 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.

The authorisation is valid until 30 June 2022 and replaces the company's previous share issue and option authorisations.

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

Transfer of own shares

In March 2021, with the authorization given by the Annual General Meeting held on April 14, 2020, the company carried out a directed share issue without consideration, 69,544 shares, to implement the share-based incentive plan.

Resolutions of Annual General Meeting

The Annual General Meeting of shareholders of Lehto Group Plc took place in Kempele in the headquarters of the company in the address Voimatie 6B on 28 May 2021. The Annual General Meeting approved the financial statements for 2020 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 2020.

The handling of the Remuneration Report for governing bodies

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

Election and remuneration of the Chairman and the Members of the Board of Directors

The Annual General Meeting resolved that the Board of Directors shall consist of six members.

Pursuant to the proposal made by the shareholders nomination committee Anne Korkiakoski, Seppo Laine and Helena Säteri and Raimo Lehtiö were re-elected as members of the Board of Directors, Hannu Lehto and Jani Nokkanen were elected as the new members of the Board of Directors, and Hannu Lehto was elected as the Chairman of the Board of Directors. The term of the Board members will expire at the end of the Annual General Meeting 2022.

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 attended Board meeting agreed in the annual meeting agenda or a meeting

outside the annual meeting agenda exceeding two hours, 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 attended meeting of the Audit Committee agreed in the annual meeting agenda or a meeting outside the annual meeting agenda exceeding two hours shall be paid a remuneration of EUR 400 for the Member of the Committee and EUR 600 for the Chairman of the Committee.

Attendance fees shall not be paid to such Members of the Board of Directors that are employed by the company. 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 8,733,000 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), in which case 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, to implement company's incentive schemes, 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 2022. The authorisation shall replace the company's previous authorisations regarding the repurchase of company's own shares.

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 8,733,000 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, when the company purchases assets linked to its operations, or to carry out incentive schemes. 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 2022. The authorisation shall replace the company's previous share issue and option authorisations.

The resolutions of the organizing meeting of the Board of Directors

The Board of Directors decided to establish an Audit committee. Anne Korkiakoski was elected as the Chairman and Seppo Laine and Hannu Lehto as the members of the committee.

Events after the review period

27 January 2022: Lehto announced that Anne Lehto, Mikko Kinnunen and Ari Saartoala 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 2022.

28 January 2022: Lehto announced that, according to unaudited calculations, the company's 2021 net sales would be down about 20 per cent on the previous year to EUR 435

million, and that the operating loss from continuing operations would be approximately EUR -24 million.

Lehto has implemented organizational changes in February. The development and marketing functions of the parent company of the group have been transferred to the Housing service area. The aim of the reorganization is to improve the company's competitiveness and profitability. In connection with the reorganization, Arto Tolonen, CDO, and Antti Asteljoki, CCO, will leave the Group Executive Board.

Within the company, 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. The reorganization due to this unit will streamline the organization and functions. With Asteljoki's experience, Lehto is seeking a significant change and a leading position in the industry in the market- and customer orientation in housing business. Arto Tolonen will change employer in connection with the change, but will still work at Lehto until the beginning of March.

After the changes have been implemented, the following persons will continue in the Group's Executive Board:

- Juuso Hietanen, CEO
- Veli-Pekka Paloranta, CFO
- Matti Koskela, EVP, Business Premises
- Timo Reiniluoto, EVP Business Support Services
- Jukka Haapalainen, EVP Factory Production
- Kaarle Törrönen, Vice President, Human Resources

In June 2022, Tero Karislahti, who has been appointed EVP, Housing Service Area, will join the Group Executive Board.

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 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 this bulletin in chapter "Risks and uncertainty factors".

Board proposal for the use of the result 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 2021 amounts to EUR 67,249,763.65, of which the result for the financial year is EUR -19,314,695.05.

The Board of Directors will propose to the Annual General Meeting of that no dividends be paid for the 1 January–31 December 2021 financial year.

Vantaa, 16 February 2022

Lehto Group Plc

Board of Directors

