

Report by the Board of Directors 2022

LEHTO



Lehto Group Plc

Summary 2022

Group	1-12/2022	1-12/2021
Net sales from continuing operations, EUR million	344.8	404.1
Change in net sales from continuing operations, %	-14.7%	-21.8%
Operating result from continuing operations, EUR million	-42.2	-28.3
Operating result from continuing operations, % of net sales	-12.2%	-7.0%
Result from continuing operations, EUR million	-58.8	-29.9
Result from discontinued operations, EUR million	32.1	-2.7
Result for the period, EUR million	-26.7	-32.6
Order backlog at period end, EUR million	205.9	444.2
Earnings per share, EUR	-0.31	-0.37
Cash and cash equivalents, EUR million	13.2	32.8
Financial liabilities, EUR million	33.9	45.8
Lease liabilities, EUR million	77.8	90.4
Equity ratio, %	27.0%	27.2%
Net gearing ratio, %	147.9%	113.8%
Equity ratio, excl. IFRS 16 lease liabilities, %	38.7%	37.3%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	31.0%	14.4%

- ♦ In 2022, net sales from continuing operations were down 14.7% on the previous year and amounted to EUR 344.8 (404.1) 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 -42.2 (-28.3) million. The operating result was burdened by approximately EUR 30 million in special items. These special items are:
 - ♦ Five fixed-price business premises projects that were priced before 2021 resulted in considerable losses due to rising construction costs
 - ♦ Significant reductions in the sale prices of housing units in one project in a discontinued line of business, and also in some other individual projects
 - ♦ Costs incurred by terminating loss-making or low-margin project contracts
 - ♦ Losses related to the discontinued Optimikodit business
 - ♦ Credit losses
- ♦ The construction of 586 (1,835) new housing units was started during the financial year. The number of start-ups fell due to the postponement of several housing projects towards the end of the financial year. At the end of the review period, there were 1,196 (2,002) units under construction, the majority of which are related to projects for institutional investors. At period-end, the number of completed and unsold apartments stood at 73.
- ♦ The operating loss was EUR 26.7 million (operating loss of EUR 32.6 million). The result for the financial year was improved by capital gains from the divestment of the pipeline renovation business (EUR +30.9 million after expenses incurred by the sale) and was weakened by a significant reduction in the value of deferred tax assets (EUR -12.8 million).



- At the end of the financial year, cash and cash equivalents stood at EUR 13.2 (32.8) million and interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 33.9 (45.8) million. Cash and cash equivalents were increased by the divestment of the pipeline renovation business, and reduced by loan repayments and the loss-making result.
- The Group's order backlog fell to EUR 205.9 million (order backlog for continuing operations EUR 444.2 million on 31 December 2021).
 - The order backlog for the Business Premises service area decreased by 75 per cent to EUR 50.3 million, and the order backlog for the Housing service area decreased by 36 per cent to EUR 155.6 million. The main reason for the decrease in the order backlog for business premises is the termination of project contracts that had already been entered into the order backlog and were under negotiation due to their loss-making nature.
 - The order backlog for housing fell due to the low number of project start-ups. Difficulty in obtaining financing led to delays in project start-ups.
- A financing package amounting to about EUR 50 million was implemented in June. Its key elements were:
 - Divestment of the pipeline renovation business (approximately EUR +29 million)
 - A new RCF credit facility from the banks (approximately EUR +13 million)
 - RS financing from banks for ongoing and new construction projects (approximately EUR +26 million)
 - The issue of convertible bonds (approximately EUR +15 million)
 - Repayment of the previous RCF credit facility and bilateral loans (approximately EUR -32 million).

Net sales by service area, EUR million

	1-12/2022	1-12/2021	Change
Housing	213.3	254.3	-16.1%
Business Premises	131.5	149.8	-12.3%
Total	344.8	404.1	-14.7%

Business environment and business development in 2022

Development of the business environment

Lehto operates in Finland, and the construction sector is very sensitive to general economic cycles. In December 2022, the Bank of Finland estimated that the Finnish economy would grow by 1.9 per cent in 2022 and enter a mild recession in 2023 with GDP contracting by 0.5 per cent. The cause of this recession is the energy crisis exacerbated by Russia's war of aggression and a rapid rise in the cost of living. The Bank of Finland expects growth to recover in 2024.

In its business cycle review published in October 2022, the Confederation of Finnish Construction Industries RT predicted that construction would grow by 2 per cent in 2022, supported by the existing work backlog and continued good performance in housing construction. In October, the Confederation forecast that construction would decrease by 2 per cent in 2023 due to a contraction in new building construction and infrastructure construction. High inflation and rising interest rates are considered to be two key factors that are hindering construction.

A decrease in building permits also forecasts a contraction in the construction market. According to Statistics Finland, 35 per cent fewer building permits were issued for new construction in September–

November 2022, and 20 per cent fewer construction projects were launched in that period than a year earlier.

The prices of building materials rose during 2022, but levelled off – or even decreased – towards the end of the year. According to Statistics Finland, construction costs in December 2022 had increased by 5.3% year-on-year. The greatest increase in annual costs for material inputs was seen in thermal insulation (17.8%) and supplies for heating, water supply and sewerage (17.1%). The prices of some supplies also decreased and, for example, costs for wooden structures were 7.6% less than in the previous year.

Interest rates have been low for a long time, but major changes were seen during 2022. This affected investor demand in particular. At the same time, continued high inflation caused a fall in demand and the postponement of investment decisions due to difficulty in forecasting property maintenance costs and rent levels in the near future.

Housing

In the Housing service area, Lehto builds new blocks of flats in growth centres and implements care homes and assisted living units 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.

The Housing business primarily comprises developer-contracted housing projects, in which 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 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.

Lehto also 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. In terms of building type, care homes are similar to conventional residential buildings.

In June 2022, Lehto divested its pipeline renovation business, which operated within the Housing service area. Housing's net sales figures have therefore been adjusted with respect to both the reporting and comparison periods.

Business development in 2022

Demand for housing construction weakened during the year. Consumer confidence remained low throughout the year, and general uncertainty concerning Finland's economic situation rose towards the end of the year. Rising inflation and an increase in interest rates, coupled with increased difficulty in obtaining financing, had a negative impact on demand for housing.

The Housing service area's net sales experienced a year-on-year decrease of 16.1% to EUR 213.3 (254.3) million. Sales volumes of housing units were lower than in the previous year, and noticeably fewer housing projects were started than in the comparison period. A total of 758 housing units were sold during the review period, most of which were built as part of investor projects.

Sold housing units during the review period	1-12/2022	1-12/2021
To investors	497	1,529
To consumers	261	319
Sold housing units during the review period, total	758	1,848

During the period, 1,392 (1,277) housing units were completed and the construction of 586 (1,835) new units was started. The newly started projects were located in the Helsinki Metropolitan Area and Oulu. There were 1,196 (2,002) housing units under construction at the end of the review period.

Housing units under construction	1-12/2022	1-12/2021
Under construction at the beginning of the period	2,002	1,444
+ started up during the period	586	1,835
- completed during the period	-1,392	-1,277
Housing units under construction at period-end	1,196	2,002

At the end of the review period, 254 (456) housing units were either under construction or completed yet unsold. Of these, 73 (26) were completed, unsold apartments. Housing projects strongly focus on investor sales, but the company has the technical and operational capabilities to begin consumer projects when the market situation changes.

Unsold housing units	1-12/2022	1-12/2021
Under construction	181	430
Completed	73	26
Unsold housing units, total	254	456

The Housing service area's order backlog stood at EUR 155.6 million at the end of the review period (EUR 242.3 million on 31 December 2021). 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.

The volume of care home construction was higher than in the comparison period, as some assisted living units larger than traditional care homes were included in housing construction projects. One (4) care home was completed during the review period. Two (1) assisted living projects were under construction at the end of the period. 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.

Mr Tero Karislahti, 39, was appointed as Executive Vice President of the Housing service area and as a member of Lehto Group's 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

Lehto has lengthy experience in building hall-like business premises, such as retail premises, shopping centres, and logistics, warehouse and production facilities. Lehto has also built other types of buildings, such as offices, hotels and schools – some of which have resulted in significant losses. Lehto updated its strategy for business premises during 2022 and, in line with this, the Business Premises service area will now focus more clearly on the construction of hall-like premises.

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, as well as cities and municipalities.

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 2022

The service area's net sales experienced a year-on-year decrease of 12.3% to EUR 131.5 (149.8) million. Net sales declined particularly as a result of terminated project contracts, but also due to Lehto's more selective project selection process than before.

Fourteen business premises projects were completed and handed over during the review period (18 sites in 2021). At the end of the period, 6 (15) projects were under construction, most notably a local service centre in Kivistö, Vantaa; a twin tower in Malmi, Helsinki; and an operating office at the Kemi bioproduct mill.

New orders valued at EUR 35.3 million were signed during the period and the order backlog decreased to EUR 50.3 million (EUR 202.0 million on 31 December 2021). The reduction in the order backlog was mainly due to terminated contracts and the low number of new agreements. In total, Lehto has terminated the contracts or preliminary agreements for six projects. The total

value of these projects is about EUR 125 million, of which EUR 73 million had already been entered into the order backlog.

The result for Business Premises was burdened by five projects that are significantly loss-making and are no longer part of Lehto's current strategy. One of these is a complete renovation project, two are hotel projects, and two are office building projects. The losses have arisen 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 renovation project in question date from 2019.

Lehto has been developing the Hippos2020 project with the City of Jyväskylä. Lehto and the City of Jyväskylä are still developing the project, even though uncertainties related to the weakening market situation have increased.

Lehto has implemented operational changes to improve project risk management in the Business Premises service area, and mobilised them in practice under the leadership of the service area's new EVP from the beginning of 2022. When evaluating prospective projects, the company pays particular attention to their suitability with respect to the company's resources and strategy.

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, 199 people worked in factory operations (253 on 31 December 2021). Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.

In January 2023, Lehto Group Plc's subsidiary Lehto Components Oy signed an agreement with the City of Oulainen, according to which Lehto Components Oy will sell a factory complex to the City of Oulainen. The complex consists of a 10,000m² factory building and its warehouses, and the sale price is approximately EUR 4.7 million. The closing of the transaction will be subject to the fulfilment of standard terms and conditions, and cannot be completed until the Oulainen City Council's decision comes into force. If concluded, the divestment will have a minor positive impact on Lehto's operating result for 2023 and a positive impact of about EUR 4.5 million on cash flow. The sale of the factory complex had not yet been completed when this release was published.





Balance sheet and financial position

Consolidated balance sheet, EUR million	31 Dec 2022	31 Dec 2021
Non-current assets	27.7	49.2
Current assets		
Inventories, excluding IFRS 16 assets	101.2	108.3
Inventories, IFRS 16 assets	70.9	86.6
Current receivables	50.4	78.3
Cash and cash equivalents	13.2	32.8
Non-current assets held for sale	3.8	0.0
Total assets	267.2	355.1
Equity	66.6	90.9
Financial liabilities	33.9	45.8
Lease liabilities	77.8	90.4
Liabilities to customers for constructing contracts (advances received)	20.6	20.5
Other payables	68.4	107.4
Total equity and liabilities	267.2	355.1

The balance sheet total declined to EUR 267.2 (355.1) 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 38.3 million. The equity ratio (taking lease liabilities into consideration) stood at 27.0% (27.2%) and the net gearing ratio was 147.9% (113.8% on 31 December 2021). The equity ratio without the lease liabilities under IFRS 16 stood at 38.7% (37.3%) and the net gearing ratio was 31.0% (14.4%).

Assets

Non-current assets amounted to EUR 27.7 (49.2) million at the end of the review period. This decrease was largely due to a EUR 12.8 million reduction in the value of deferred tax assets. Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 2.9 (3.9) million in machinery and equipment, and EUR 9.9 (11.4) million in factory buildings, of which EUR 3.7 million were non-current assets held for sale.

Inventories fell to EUR 172.1 (194.9) million, mainly due to a EUR 15.7 million decrease in inventories in accordance with IFRS 16.

Current receivables declined to EUR 50.4 (78.3) million and included trade receivables of EUR 21.8 (39.7) million and percentage-of-completion receivables of EUR 24.4 (36.6) million.

Cash and cash equivalents totalled EUR 13.2 million on 31 December 2022 (EUR 32.8 million on 31 December 2021).

Equity and liabilities

As a consequence of the loss for the financial year, shareholders' equity fell to EUR 66.6 (90.9) million during the period. In addition to loss-making operations, the result for the financial year was weakened by a EUR 12.8 million reduction in the value of deferred tax assets. It was improved by capital gains from the divestment of the pipeline renovation business (EUR +30.9 million after expenses incurred by the sale).

Financial liabilities excluding lease liabilities declined to EUR 33.9 million during the review period (EUR 45.8 million on 31 December 2021). The table below presents a breakdown of interest-bearing liabilities at the balance sheet date:

Interest-bearing liabilities	31 Dec 2022	31 Dec 2021
Revolving credit facility (RCF)	13.0	25.1
Convertible bond	15.0	
from which expenses adjusted and the equity component separated	-3.3	
Project-specific loans	0.0	3.2
RS loans related to unsold apartments in developer contracted housing projects	9.2	7.4
Investment loans	0.0	4.8
VAT payment arrangement	0.0	5.3
Financial liabilities, total	33.9	45.8
IFRS 16 lease liabilities	77.8	90.4
Interest-bearing liabilities, total	111.7	136.3



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.

Liabilities based on customer contracts (advances received) remained at the same level as on the 2021 balance sheet date: EUR 20.6 (20.5) million. Liabilities based on customer contracts include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities decreased to EUR 58.0 (85.0) million. They include liabilities related to ordinary business operations, such as EUR 24.8 (46.0) million in trade payables and EUR 9.6 (8.1) million in VAT liabilities.

Cash flow statement, EUR million	1-12/2022	1-12/2021
Cash flow from operating activities		
Result for the period + adjustments to accrual-based items	-49.2	-14.9
Change in net working capital	15.5	-25.6
Total cash flow from operating activities	-33.7	-40.5
Cash flow from investments	27.8	-0.7
Cash flow from financing	-13.6	-31.1
Change in cash and cash equivalents	-19.5	-72.3
Cash and cash equivalents at the beginning of the period	32.8	105.1
Cash and cash equivalents at the end of the period	13.2	32.8

Net cash flow from operating activities was EUR -33.7 (-40.5) million, which includes a positive impact of EUR 15.5 (-25.6) million due to the decrease in net working capital. The decline in net working capital was caused by a reduction in inventories, sales receivables and other receivables.

Net cash flow from investments was EUR 27.8 (-0.7) million, of which EUR 28.7 million resulted from the divestment of the pipeline renovation business. Net cash flow from investments was EUR -0.4 (-0.4) million, of which EUR -0.4 million relates to tangible assets (mainly replacement investments) and EUR -0.4 (-0.8) million to intangible assets.

Net cash flow from financing was EUR -13.6 (-31.1) million. A new RCF revolving credit facility of EUR 13 million and a EUR 15 million convertible bond were drawn during 2022. A total of EUR 38.3 (28.7) million in loans was repaid, including the repayment of the previous EUR 25.1 million RCF revolving credit facility, EUR 5.3 million in VAT liabilities as part of a payment arrangement with the Tax Administration and EUR 7.9 million in loans from other financial institutions.

Financial position, EUR million	Excl. IFRS 16 lease liabilities			Incl. IFRS 16 lease liabilities		
	31 Dec 2022	31 Dec 2021	Change	31 Dec 2022	31 Dec 2021	Change
Cash and liquid assets	13.2	32.8	-19.5	13.2	32.8	-19.5
Interest-bearing liabilities	33.9	45.8	-12.0	108.3	136.3	-27.9
Interest-bearing net debt	20.6	13.1	7.6	95.1	103.5	-8.4
Equity ratio, %	38.7%	37.3%	1.4%	27.0%	27.2%	-0.2%
Net gearing ratio, %	31.0%	14.4%	16.6%	147.9%	113.8%	34.1%



Key financing agreements

Revolving credit facility (RCF)

On 30 June 2022, Lehto signed an agreement for a new Revolving Credit Facility (RCF) with OP Corporate Bank plc and Nordea Bank Plc. The RCF amounts to EUR 13 million and is valid until 31 March 2024. The entire credit facility was in use at the end of the review period. The RCF includes securities, financial covenants related to EBITDA and minimum cash requirements, restriction on dividend payouts while the agreement is in force, and conditions related to the company's operations and the constitution and chairman of the Board of Directors.

Not all of the covenant terms for the RCF were met at the end of the review period, and on the date when the Financial Statements were signed, the company had permission from the banks to temporarily exceed the covenant limits set in the agreement.

Convertible bond

On 30 June 2022, Lehto offered the first tranche of its unsecured convertible bonds due June 2027 for subscription by institutional and other qualified investors. The convertible bonds are convertible into new and/or existing shares in Lehto and were issued in an aggregate principal amount of EUR 15 million.

In accordance with its undertaking announced on 29 June 2022, the biggest shareholder of the company, Lehto Invest Oy, subscribed for convertible bonds for an amount of EUR 8.0 million in connection with the convertible bonds' first tranche issue, and an additional subscription of EUR 2.0 million was announced on 29 September 2022.

The transaction aims to improve the financing position of the company and to facilitate the company's bank financing arrangement, and the proceeds from the convertible bonds will be used for general corporate purposes.

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 last instalment was paid on August 2022, at which time the arrangement was also concluded.

Continuity of operations

In connection with the preparation of the financial statements, the company has made an assessment of the conditions for the continuity of operations. In the evaluation, it has been found that as a result of the loss-making business, the company's financial situation has weakened and the financing of the company's construction projects has become more difficult.

During the next 12 months, the following factors are considered to particularly affect the adequacy of the treasury:

- ♦ General development of the Finnish economy and construction market
- ♦ The profitability of the company's projects
- ♦ The company's ability to adjust its fixed costs
- ♦ Obtaining financing and the necessary guarantees for projects
- ♦ Timing and sale prices of the company's balance sheet assets

- ♦ Progress in structural and proprietary arrangements
- ♦ The company's ability to stay within the terms of the key financing agreement.

The company has prepared both profit and cash scenarios, in which the aforementioned factors have been taken into account and their probabilities have been assessed. As a conclusion of the evaluation, the company's management and board of directors have stated that there are no such uncertainty factors related to the company's operations that would give significant reason to doubt the company's ability to continue its operations and cope with its payments during the next 12 months.

Personnel and remuneration

The average number of Group personnel during the review period was 860 (1,043 in 2021). The number of personnel at period-end was 664 (1,042 on 31 December 2021). About 52% of the Group's personnel are salaried employees and about 42% work at construction sites.

In March 2022, on the basis of an authorization granted by the Annual General Meeting of 28 May 2021, the company carried out a directed bonus issue of 151,842 shares in order to implement a share-based incentive scheme for personnel.

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 and windows 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 0.4 (0.7) 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, the company seeks to attract new business opportunities and partners, as well as to further improve the profitability and predictability of its operations. Further development of risk management is one of the major priorities in Lehto's operations.

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 during 2023

The prices of numerous building materials increased sharply and the availability of certain materials weakened in 2022. This applies to wood, processed wood, concrete elements, insulation and technical building components in particular. 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. The realisation of these risks could have a significant impact on Lehto's full-year net sales and operating result for 2023. In order to eliminate such risks, Lehto engages in continuous dialogue with its suppliers and assesses the potential for using substitute materials or components in its projects.

Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks. The coronavirus pandemic and war in Ukraine have caused general uncertainty in the customer and financing markets, 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. It is possible that the startup of the company's construction projects will be delayed if Lehto is unable to organise project-specific financing or guarantees for its projects.

The increase in inflation that started in 2022 and the significant rise in interest rates have particularly affected investor demand. The continuation of interest rates at a high level or a further rise in interest rates can further

weaken the demand for both apartments and business premises.

Lehto is currently working on both contracts and developer contracted projects in both the Housing and Business Premises service areas. Net sales and operating profit will be affected by the accuracy of project cost estimates, progress in selling these projects and exactly when they are sold.

Impacts of the coronavirus situation and war in Ukraine

In the company's opinion, the most significant impacts of the coronavirus pandemic on the construction industry have concerned disruptions to production and logistics chains, as a result of which the prices of building materials have risen and their availability has decreased. Although some prices have remained high, the company does not currently see any factors arising directly from the pandemic that would have an impact on its business.

The war in Ukraine has had adverse impacts on Lehto's business environment. The most significant effects are a sharp rise in costs and an increase in general market uncertainty. According to Statistics Finland, construction costs in December 2022 had increased by 5.3% year-on-year. Costs of materials grew by 8.5% year-on-year and labour costs by 1.0%. Lehto seeks to control rising costs especially by confirming procurement prices in advance. The continuation or expansion of the war may cause more uncertainties in Lehto's business.

Due to market uncertainty, Lehto has reduced the volume of developer-contracted housing and business premises construction. The company is very selective in starting up new developer contracting projects.

Responsibility and environmental issues

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 during construction, and to be a good employer that is fair to everyone. The construction sector will play a significant role in curbing climate change, adapting to it, and reducing the use of non-renewable natural resources. Lehto's aim is to combine smart and sustainable construction with the benefits afforded by digitalisation. For example, Lehto has developed solutions for wood construction that utilise factory production, which is more ecological and resource-efficient than traditional construction.

At Lehto Group, the CEO is ultimately responsible for environmental issues. Responsibility for practical environmental management is assigned as follows: EVPs of the service areas for construction; the factory production manager for factory production; and the Chief Procurement Officer for centralised purchasing. The HR Director is in charge of responsibility issues relating to personnel. The management team monitors trends in the key indicators of responsibility. Sustainability issues are discussed in management teams as part of both routine business management and development.

Lehto is a member of the Green Building Council Finland cooperation network, as we have also wanted to promote sustainable construction solutions through this avenue. As a member of Green Building Council Finland, Lehto was involved in the 2022 activities of its Construction and Communications Committees.



The Lehto Group monitors sustainability with the aid of three themes that follow an ESG-style breakdown (environment, social and governance). The themes we monitor are: responsible construction, personnel wellbeing, and the responsibility of business practices.

In 2022, efforts were made to improve waste sorting and recycling. Both the sorting and recycling rates of construction and demolition waste increased compared to previous years. Masses of contaminated soil are not included in the waste identification numbers. Some of the plots have soil materials that have been spoiled as a result of the previous history of the plot.

Lehto strived to implement energy-saving measures in all its service areas and participated in the nationwide Down a Degree energy-saving campaign, which started in the fall of 2022. During 2022, operational floor space in Lehto's own use was reduced. The use of space could be made more efficient as the workload and number of personnel changed.

Lehto signed up for the Building Life initiative related to reducing greenhouse gas emissions, which aims to work towards a carbon-neutral built environment by 2035. Lehto was also involved in the Climate Indicator project, which aims to promote the reduction of the carbon footprint and the reduction of life cycle costs. In 2022, greenhouse gas emission calculations were prepared for some of Lehto's construction projects. They examined both product-related and operational phase emissions.

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 five operative subsidiaries. All operative subsidiaries are located in Finland and the parent company has a 100% shareholding. The Group also comprises two non-operative companies in Sweden as well as some temporary real-estate companies or shareholdings in them. In June 2022, the Group sold 100% owned pipeline renovation subsidiary Remonttipartio.

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.

Resolutions of the 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 2 May 2022. The Annual General Meeting approved the financial statements for 2022 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 2021.

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 five members.

Pursuant to the proposal made by the shareholders nomination committee Anne Korkiakoski, Jani Nokkanen, Helena Säteri and Hannu Lehto were re-elected as members of the Board of Directors, Eero Sihvonen was elected as a new member 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 2023.

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.

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 2023. 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 40,000,000 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 execute equity-linked financing arrangement published on 11 April 2022, 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. Eero Sihvonen was elected as the Chairman and Anne Korhikoski and Hannu Lehto as the members of the committee.

Change in roles in Lehto Group Plc's Board of Directors and Audit committee on Dec 5, 2022

On Dec 5, 2022 Hannu Lehto moved from the role of chairman of the board to a member of the board at his own request and the Board elected, from among its members, Eero Sihvonen as the new Chairman. As Eero Sihvonen took the role as Chairman of the Board, the Board of Directors elected Anne Korhikoski as new Chairman of the Audit committee. Eero Sihvonen and Hannu Lehto act as the members of the committee.



Shares and shareholdings

Lehto Group Plc 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 16,886 shareholders. The company holds 28,123 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 2022 was EUR 0.172. The share's highest rate during the review period was EUR 0.944 and its lowest rate was EUR 0.167. A total of 45,210,912 shares in the company were traded during the period with a trading value of approximately EUR 23 million.

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

Transfer of own shares

In March 2022, with the authorization given by the Annual General Meeting held on May 28, 2021, the company carried out a directed share issue without consideration, 151,842 shares, to implement the share-based incentive plan.

Events after the review period

9 January 2023: Lehto announced that it will sell one of its factory buildings in Oulainen for EUR 4.7 million. The closing of the transaction will be subject to the fulfilment of standard terms and conditions, and cannot be completed until the Oulainen City Council's decision

comes into force. The transaction had not yet been completed when this release was published.

30 January 2023: Lehto announced that the operating result for 2022 would be lower than previously estimated.

30 January 2023: Lehto announced the launch of negotiations on structural and ownership arrangements.

1 February 2023: the company published a proposal made by the Shareholders Nomination Committee on the composition and remuneration of the Board of Directors. The proposal will be presented to the Annual General Meeting scheduled for 30 March 2023.

Outlook for 2023

Due to the uncertain market and financing situation of the construction industry, and the ongoing process regarding structural and ownership arrangements, there are many uncertainties related to 2023 outlook.

Lehto estimates that the 2023 net sales for Housing service area will be lower than in 2022 (EUR 213,3 million in 2022) and the net sales in Business Premises service area will decrease significantly from 2022 (EUR 131,5 million in 2022). Operating result is estimated to improve substantially.

The reason behind the declining net sales is the decreased amount of projects in business premises and housing. The improvement of the operating result is mainly based on the reason that the company has no ongoing or starting projects which would include significant risk of loss.

The most significant risks related to net sales and operating result are the development of sales of apartments and business premises and the availability of financing and guarantees for the construction projects.

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 2022 amounts to EUR 47,702,699.67, of which the result for the financial year is EUR -19,547,063.98.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the financial year 1 January–31 December 2022.

Vantaa, 14 February 2023

Lehto Group Plc

Board of Directors