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Lehto Group Plc Half-Year Financial Report
1 January – 30 June 2021

LEHTO

Net sales down by 22%, operating result improves on the comparison period

This half-year financial report has been prepared in accordance with the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act and discloses regular business reviews for the first three and nine month periods of the year, in which key information regarding the company's financial situation and development will be presented.

Summary January–June 2021

GROUP	1-6/2021	1-6/2020	4-6/2021	4-6/2020	1-12/2020
Net sales, EUR million	197.6	254.5	110.0	135.1	544.7
Change in net sales, %	-22.3%	3.3%	-18.6%	5.1%	-18.4%
Operating result, EUR million	-2.6	-5.1	-0.8	-1.6	-2.9
Operating result, % of net sales	-1.3%	-2.0%	-0.7%	-1.2%	-0.5%
Result for the period, EUR million	-4.4	-5.8	-1.7	-2.0	-8.2
Order backlog at period end, EUR million	501.1	531.9	501.1	531.9	426.3
Earnings per share, EUR million [1]	-0.05	-0.08	-0.02	-0.03	-0.12
Cash and cash equivalents, EUR million	56.8	45.0	56.8	45.0	105.1
Interest-bearing liabilities, EUR million	145.2	171.7	145.2	171.7	113.7
Lease liabilities in interest-bearing liabilities, EUR million	77.5	60.0	77.5	60.0	33.3
Equity ratio, %	35.4%	30.7%	35.4%	30.7%	38.7%
Net gearing ratio, %	74.2%	119.7%	74.2%	119.7%	7.0%
Equity ratio, excl. IFRS 16 lease liabilities, %	46.0%	37.0%	46.0%	37.0%	43.2%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	9.2%	63.0%	9.2%	63.0%	-19.9%

[1] *Earnings per share for 1-6/2020 have been adjusted for the share issue carried out in December 2020.*

- Net sales for January–June experienced a year-on-year decline of 22.3% to EUR 197.6 (254.5) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.
- The operating loss was EUR 2.6 million (operating loss of EUR 5.1 million). The decrease in projects with weak margins had a positive effect on the operating result. The operating result was burdened by high fixed costs in relation to current business volumes and the low profitability of some business premises projects.
- The balance sheet position remained good. At the end of the review period, interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 67.8 million (EUR 80.4 million on 31 December 2020) and cash

and cash equivalents to EUR 56.8 million (EUR 105.1 million on 31 December 2020). Cash and cash equivalents declined due to growth in net working capital and especially plot investments.
- The order backlog rose to EUR 501.1 million (EUR 426.3 million on 31 December 2020). The order backlog rose in both service areas.

NET SALES BY SERVICE AREA, EUR MILLION

	1-6/2021	1-6/2020	Change	4-6/2021	4-6/2020	Change Q2	1-12/2020
Housing	124.3	166.4	-25.3%	71.3	91.2	-21.8%	372.9
Business Premises	73.3	88.0	-16.7%	38.7	43.9	-11.8%	171.7
Total	**197.6**	**254.5**	**-22.3%**	**110.0**	**135.1**	**-18.6%**	**544.7**

CEO Juuso Hietanen:

Juuso Hietanen started out as the new CEO of Lehto Group Plc at the beginning of May 2021.

"I've now been working for the company for about a hundred days, and have been getting to know our employees, customers, partners, financiers and other stakeholders. I've seen how our company has the innovativeness, will and ability to find solutions that will lead to affordable and high-quality outcomes. And that's exactly what our customers and society at large need both now and in the future.

On the other hand, I've also noticed large variations in the final results of projects. After the company's major ups and downs, I see the consolidation of our corporate culture and operating methods to be a key task. We want to be pioneers in the production of modular, industrially prefabricated buildings. This requires a systematic and meticulous approach in all areas: project and planning development, sales, design processes, and production.

Over the next few years, we will be focusing wholeheartedly on enhancing our competitiveness. Improving the profitability of our projects is a key priority, but our profitability targets will be moderate, as the company is still in the development and investment phase, and it will take a relatively long time before we see the impact of our developmental measures.

We have already taken a number of steps that are described in more detail later on in this report. We will also be refining our action plans during the second half of the year.

Although net sales decreased by 22 per cent year-on-year in the first half of 2021, our operating result improved, as has now been the case for six successive quarters. We received significant new orders for business premises, such as a multi-space office building for the City of Vantaa in Tikkurila and the port warehouse in Kemi. On the housing side, there were fewer start-ups than in the comparison period.

The construction market has remained relatively strong in spite of the coronavirus pandemic. Demand for housing has been maintained by institutional investors. There has been a slight decline in demand from small investors, while consumer demand has remained unchanged.

The prices of many building materials rose significantly during the first half of the year, and the availability of some raw materials has been weak. This has raised construction costs and will also impact the full-year result.

I believe that Lehto's solid experience in industrial prefabrication and repeatable solutions gives us a firm foundation for working towards our strategic objective. It's clear that eco-friendliness and carbon neutrality will play a significant role in our future business. Ecological, affordable and high-quality solutions are in high demand among consumers, investors and society as a whole. Our strategy is based on meeting these needs."

Outlook for 2021

The still continuing coronavirus pandemic, weak profitability of few business premises projects and rising prices of building materials and problems with the availability of certain materials have increased the uncertainty towards year 2021 financial outlook.

Lehto estimates that net sales in 2021 will be 15-20 % lower than in the previous year (EUR 544.7 million in 2020) and that the operating result will be positive. The accrual of the net sales and operating result is expected to be concentrated on the last quarter of the year.

The main risks to the development of net sales and the operating result in 2021 concern the progress of business premises projects according to the plans, trends in sales of housing and business premises, the potential for interruptions in construction site operations due to the coronavirus pandemic, and the availability and rising prices of building materials.

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 by the end of April 2022. Over the next few years, Lehto will focus on the profitability of its projects, and enhancing competitiveness. Net sales growth targets are secondary. Profitability will be moderate, as the company is still in the investment phase and is focusing on enhancing its competitiveness and sustainable construction.

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Press conference on the half-year report

Lehto Group will hold a conference on the Half Year Financial Report for the media, analysts and investors on Thursday 12 August 2021 at 9:30 a.m. (EET). Due to the prevailing corona situation, the event will only be held online. The conference can also be followed as a live webcast on Lehto's website at lehto.fi/en/investors. The live webcast will begin at 9:30 (EET) and questions can be asked by using an online questionnaire.

The presentations are held by Lehto's CEO Juuso Hietanen and CFO Veli-Pekka Paloranta. The presentations will start by short summary in English, following the presentation in Finnish.

The recorded webcast will be published on the same website right after the event.

Business development in the review period

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

In its outlook report published in February 2021, the construction trends group of the Ministry of Finance (RAKSU) estimated that the development of construction in 2020 was significantly better than expected, especially in housing production. Although the coronavirus pandemic temporarily slowed down sales in the spring, housing sales saw year-on-year growth. However, housing production is expected to decline both this year and the next. Housing start-ups in 2020 are estimated to have amounted to around 40,000 units. Start-ups are expected to amount to 34,000–36,000 in 2021 and 31,000–34,000 in 2022.

Start-ups of business premises and other production facilities were down by slightly less than one-tenth last year. In particular, start-ups of industrial buildings decreased significantly, while start-ups of warehouse buildings increased compared to the previous year.

The RAKSU group estimates that construction as a whole will decrease by one to three per cent this year, less than previously forecast. This is due to the moderate coronavirus situation in Finland and the start-up of many new construction projects in the latter part of 2020.

In its business cycle review published in March 2021, the Confederation of Finnish Construction Industries RT estimated that construction contracted by about one per cent in 2020, and will decline further by around 2 per cent this year. Start-ups of apartment buildings are expected to decline from last year's level of 30,700 units to around 26,300 units this year. However, slight growth is anticipated in start-ups of terraced and single-family houses. Thus, it is expected that the construction of a total of 37,000 units will be started in 2021. RT also forecasts that housing start-ups will see a further year-on-year decline in 2022.

Construction of business premises remained at a good level last year due to long construction periods. On the other hand, the number of building permits declined significantly. Start-ups of non-housing construction projects are expected to decrease by around 5 per cent this year.

During the the year 2021, the prices of building materials have increased and there have been issues with the availability of certain materials. So far, difficulties in availability of materials have not significantly slowed down projects in progress, but the company anticipates that in the second half of the year, rising prices and availability problems will affect project progress and costs more than in the first half.

HOUSING

In the Housing service area, Lehto builds new blocks of flats in growth centres, carries out pipeline renovations, largely in the Helsinki metropolitan area, and implements care homes and assisted living facilities around Finland. The Housing service area seeks to produce "ingenious urban homes for everyone".

Operations focus on growing university towns, where Lehto wants to enable households with low and medium incomes to live in high-quality housing. Affordably priced and comfortable urban homes are the result of diligent housing design and standardised construction solutions created through long-term development efforts. In spite of 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 divided into developer-contracted production and contracting projects. In Lehto's developer-contracted housing projects, the company designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. These customers include private persons, 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 2021-2023 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 the review period

The Housing service area's net sales experienced a year-on-year decrease of 25.3% to EUR 124.3 (166.4) million. In particular, the number of developer contracting projects recognised as revenue declined during the period. The volume of projects sold as contracts was also lower than in the comparison period. A total of 979 housing units were sold during the review period, most of which were built through contract projects.

Sold housing units during the review period	1-6/2021	1-6/2020	1-12/2020
Contract	860	1,071	1,582
Developer contract	119	219	528
Sold housing units during the review period, total	**979**	**1,290**	**2,110**

During the review period, 447 (774) housing units were completed and the construction of 838 (1,050) new units was started. The start-ups were located in Southern Finland, Western Finland and Northern Finland. There were 1,835 (1,671) housing units under construction at the end of the review period.

Housing units under construction	1-6/2021	1-6/2020	1-12/2020
Under construction at the beginning of the period	1,444	1,485	1,485
+ started up during the period	838	1,050	1,508
- postponed project		-90	-90
- completed during the period	-447	-774	-1,459
Housing units under construction, total	**1,835**	**1,671**	**1,444**

At the end of the review period, 270 housing units were either under construction or completed yet unsold. Of these, 33 were completed, unsold apartments. Although housing will continue to focus on contract projects, efforts are being made to moderately increase the share of developer-contracted projects. In a contract project, all the housing units are considered to have been sold at the time of signing.

Unsold housing units	30 June 2021	30 June 2020	31 Dec 2020
Under construction	237	298	118
Completed	33	163	56
Unsold housing units, total	**270**	**461**	**174**
including DWS units	-	192	-

The Housing service area's order backlog stood at EUR 272.6 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 developer contracting projects were started, especially in the Helsinki metropolitan area and Turku. The housing production order backlog includes the proportion of developer contracting projects that have been started but have not yet been recognised as net sales. A developer contracting construction 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.

Demand for housing construction remained good in spite of the uncertainty arising from the coronavirus pandemic. Several agreements were signed during the review period for housing projects sold as contracts, and also for care homes and assisted living projects as part of a housing project. The availability and price of financing still affect start-ups of developer contracting projects.

The volume of care home construction was slightly lower than in the comparison period due to the small number of projects. One (four) care home was completed during the review period and three (one) 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.

The pipeline renovation business has remained stable and 4 (7) projects were completed during the review period. Ten (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.

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.

Following the strategy update in autumn 2020, the Business Premises service area will focus more closely on selecting projects that are in line with the strategy and concept as well as enhancing planning control. More attention will also be paid to eco-friendliness.

Business development in the review period

The service area's net sales experienced a year-on-year decrease of 16.7% to EUR 73.3 (88.0) million. Net sales declined in the school and daycare centre business in particular, due to Lehto's more selective process for choosing projects.

Five business premises projects were completed and handed over during the review period (14 sites 1–6/2020). At the end of the period, 19 (13) projects were under construction, most notably four hotel projects in the Greater Helsinki Area, an office building for Fennovoima in Pyhäjoki, and a pulp warehouse in the Port of Kemi.

New contract agreements valued at EUR 107.6 million were signed during the period and the order backlog rose to EUR 228.5 million (EUR 194.2 million on 31 December 2020). In March, Lehto won a tender for a multi-space office building for the City of Vantaa, which will be built in Tikkurila. This turnkey project is valued at about EUR 58 million and its construction is currently estimated to begin in the spring 2022. The turnkey project is included to the order backlog during the review period.

Due to the coronavirus crisis, customers have cancelled and delayed investment decisions, which has slowed down the intake of new orders. A project that was on hold due to the crisis was restarted after the review period.

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.
The school and daycare centre business performed in line with plans during the review period. One (three) project was handed over during the review period and two (six) 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.

The Business Premises service area is carrying out two complete renovation projects based on earlier commitments. One of the projects is a complete renovation contract valued at about EUR 30 million in which an old office property is being renovated and converted for use as a hotel. The margin of the project is slightly positive and it is expected to be completed in October 2021. The other project is a contract valued at about EUR 16 million in which old teaching facilities will be renovated and converted for use as housing. This project is loss-making and the estimated loss has been recognised as an expense in the 2020 financial statements. It is expected that the project will be completed in October 2021. In the future, new complete renovation projects will only be undertaken selectively on condition that the renovation is related to new construction projects or when it is a significant part of a larger commercial entity.

SWEDISH OPERATIONS

Lehto has developed a type of wooden block of flats based on prefabricated space elements that is especially suitable for the Swedish market. Lehto is currently negotiating with customers and financiers on the implementation of the first pilot project. In the first phase after the pilot project, the intention is to carry out the projects as fixed-price contracts, with the construction phase being implemented with local partners.

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, 245 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	30 June 2021	30 June 2020	31 Dec 2020
Non-current assets	56.7	66.9	63.4
Current assets			
Inventories, excluding IFRS 16 assets	118.3	179.7	107.7
Inventories, IFRS 16 assets	73.0	53.5	28.0
Current receivables	106.4	91.0	79.7
Cash and cash equivalents	56.8	45.0	105.1
Total assets	**411.1**	**436.2**	**383.8**
Equity	119.2	105.8	123.6
Financial liabilities	67.8	111.7	80.4
Lease liabilities	77.5	60.0	33.3
Advances received	74.3	91.1	64.4
Other payables	72.4	67.6	82.1
Total equity and liabilities	**411.1**	**436.2**	**383.8**

The balance sheet total grew slightly from the 2020 closing date to EUR 411.1 million. The key figures for financial standing and indebtedness weakened compared to the turn of the year, as funds were tied to growth in working capital, particularly inventories and receivables. The equity ratio (taking lease liabilities into consideration) stood at 35.4% (38.7% on 31 December 2020) and the net gearing ratio was 74.2% (7.0% on 31 December 2020). The equity ratio without the lease liabilities under IFRS 16 stood at 46.0% (43.2%) and the net gearing ratio was 9.2% (-19.9%).

Cash and cash equivalents totalled EUR 56.8 million at the end of the review period (EUR 105.1 million on 31 December 2020). The decrease in cash and cash equivalents was due to not only growth in net working capital, but also the repayment of financial liabilities. Financial liabilities excluding lease liabilities declined to EUR 67.8 million during the review period (EUR 80.4 million on 31 December 2020).

Inventories grew as the company acquired rented and owned plots for housing construction projects. Receivables grew especially in the case of trade receivables and percentage-of-completion receivables. Growth in both inventories and receivables was largely financed with cash reserves

Key financing agreements

Lehto has a Revolving Credit Facility (RCF) with a bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank AB. The agreement is for EUR 54 million and will remain in force until 31 December 2022. According to the agreement, some of the credit will be paid back before the end of the contractual period and part of the credit will fall due at the end of the agreement. The agreement includes both partial guarantees and financial covenants on EBITDA, interest-bearing net debt and net gearing. These covenants may also impact the distribution of dividends while the credit facility agreement is in force. At the end of the review period, EUR 39.0 million of the credit facility was in use and no funds were available to be drawn.

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 review period, the obligation related to the payment arrangement was EUR 11.3 million.

Personnel and remuneration

The average number of Group personnel during the review period was 1,041 (1,115 on 31 December 2020). The number of personnel at period-end was 1,079 (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.

Resolutions of the Annual General Meeting

In accordance with the proposal of the Board of Directors, the Annual General Meeting (AGM) of 28 May 2021 decided that no dividend will be paid for the financial year ending on 31 December 2020.

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

The above-mentioned and other decisions of the Annual General Meeting were disclosed in a stock exchange release on 28 May 2021.

Risks and uncertainty factors

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

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

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

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These business models involve different risks. In traditional contracting, project income is recognised according to the degree of completion. The main risk in this model is that total costs for the project exceed the estimated costs or the completion of the project is delayed. The main risk in own production is that the company is not able to sell the production within the planned time schedule or at the planned price. In addition, project costs can exceed the estimated costs. Failure in project pricing, technical implementation, estimating costs and time schedule, selling the property or finding financing can have a negative impact on the company's result and financial position.

Part of Lehto's business involves agreements according to which Lehto builds premises in line with the customer's needs and only sells the premises upon their completion or at a later stage to a fund, for example. Despite Lehto's completion of premises according to the agreed schedule and costs, Lehto carries a risk related to the capacity of the fund to provide the cash required for the purchase of the premises at the agreed time of payment.

The project business the Group carries out is characterised by variation, which can be significant, in profit between different reporting periods due to the accounting methods of projects. The Group's cash flow is usually generated in step with a project's degree of completion, however such that the last instalment payable after the completion is bigger than the other instalments. Thereby a delay of an individual project can have an effect on the sufficiency of financing. In addition, a project delay may mean that net sales and operating profit from that project are pushed back to the next financial period, thereby weakening net sales and operating profit in the current financial period.

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 the current financial year

During the first half of the year, the prices of many building 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. 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 2021. 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.

The ongoing coronavirus pandemic is still causing uncertainty in the 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 developer-contracted projects in both the Housing and Business Premises service areas. Net sales and operating profit will be affected by progress in selling these projects and exactly when they are sold.

Shares and shareholdings

Lehto is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of June was 87,339,410 and the company had 18,397 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 30 June 2021 was EUR 1.624. The share's highest rate during the review period was EUR 2.305 and its lowest rate was EUR 1.192. A total of 31,986,461 shares in the company were traded during the period with a trading value of approximately EUR 55 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.

Events after the review period

It has been decided to make changes to the composition of Lehto Group Plc's group executive board as of 12 August 2021. The changes will be described in a separate stock exchange release on August 12, 2021.

Vantaa, 11 August 2021

Lehto Group Plc
Board of Directors

Juuso Hietanen, CEO
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Veli-Pekka Paloranta, Chief Financial Officer
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Tables

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME EUR million	1–6/2021	1–6/2020	1–12/2020
Net sales	**197.6**	**254.5**	**544.7**
Other operating income	0.4	0.5	1.0
Changes in inventories	8.6	-30.5	-98.7
Raw materials and consumables used	-72.2	-88.3	-168.8
External services	-91.6	-94.3	-194.6
Employee benefit expenses	-32.5	-34.0	-63.7
Depreciation and amortisation	-3.6	-3.8	-7.6
Other operating expenses	-9.4	-9.2	-15.0
Operating result	**-2.6**	**-5.1**	**-2.9**
Financial income	0.0	0.1	0.3
Financial expenses	-1.4	-2.1	-4.3
Result before taxes	**-4.0**	**-7.2**	**-6.8**
Income taxes	-0.4	1.4	-1.3
Result for the period	**-4.4**	**-5.8**	**-8.2**
Result attributable to			
Equity holders of the parent company	-4.4	-5.8	-8.2
Non-controlling interest	0.0	0.0	0.0
	-4.4	**-5.8**	**-8.2**
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	0.0	0.0	0.1
	0.0	0.0	0.1
Comprehensive result, total	**-4.4**	**-5.8**	**-8.1**
Comprehensive result attributable to			
Equity holders of the parent company	-4.4	-5.8	-8.1
Non-controlling interest	0.0	0.0	0.0
	-4.4	**-5.8**	**-8.1**
Earnings per share calculated from the result attributable to shareholders of the parent company, EUR per share [1)]			
Average number of (issue-adjusted) outstanding shares during the period, basic	87,124,865	70,428,760	71,012,014
Earnings per share, basic	-0.05	-0.08	-0.12
Average number of (issue-adjusted) outstanding shares during the period, diluted	87,427,066	70,545,186	71,330,955
Earnings per share, diluted	-0.05	-0.08	-0.11

[1)] 1-6/2020 is issue-adjusted due share issue in December 2020

CONSOLIDATED BALANCE SHEET EUR million	30 Jun, 2021	30 Jun, 2020	31 Dec, 2020
Assets			
Non-current assets			
Goodwill	4.6	4.6	4.6
Other intangible assets	4.0	5.1	4.5
Property, plant and equipment	20.9	24.9	22.7
Investment properties	0.7	0.7	0.7
Investments and receivables	11.5	13.5	15.4
Deferred tax assets	15.0	18.0	15.4
Non-current assets total	*56.7*	*66.9*	*63.4*
Current assets			
Inventories	191.3	233.2	135.7
Trade and other receivables	106.4	91.0	79.7
Cash and cash equivalents	56.8	45.0	105.1
Current assets total	*354.5*	*369.3*	*320.4*
Assets total	**411.1**	**436.2**	**383.8**
Equity and liabilities			
Equity			
Share capital	0.1	0.1	0.1
Invested non-restricted equity reserve	88.7	69.2	88.7
Translation difference	-0.3	-0.4	-0.2
Retained earnings	35.0	42.7	43.3
Result for the financial period	-4.4	-5.8	-8.2
Equity attributable to shareholders of the parent company	119.2	105.8	123.6
Non-controlling interest	0.0	0.0	0.0
Equity total	*119.2*	*105.8*	*123.6*
Non-current liabilities			
Deferred tax liabilities	0.3	0.5	0.3
Provisions	12.6	10.2	12.5
Financial liabilities	4.2	5.1	10.0
Lease liabilities	75.3	57.6	31.5
Other non-current liabilities	0.1	0.1	0.1
Non-current liabilities total	*92.5*	*73.6*	*54.5*
Current liabilities			
Financial liabilities	63.6	106.6	70.4
Lease liabilities	2.2	2.4	1.8
Advances received	74.3	91.1	64.4
Trade and other payables	59.3	56.7	69.1
Current liabilities total	*199.4*	*256.8*	*205.7*
Liabilities total	291.9	330.4	260.2
Equity and liabilities total	**411.1**	**436.2**	**383.8**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, EUR million

	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY						
	Share capital	Invested non-restricted equity reserve	Translation difference	Retained earnings	Equity att-ributable to shareholders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2020	**0.1**	**69.2**	**-0.3**	**43.2**	**112.1**	**0.0**	**112.1**
Comprehensive income							
Result for the financial period			0.0	-5.8	**-5.8**		**-5.8**
Total comprehensive income			***0.0***	***-5.8***	***-5.8***		***-5.8***
Transactions with equity holders							
Distribution of dividends				0.0	0.0		0.0
Share-based compensation				0.0	0.0		0.0
Repurchasing own shares				-0.5	-0.5		-0.5
Transactions with equity holders, total				***-0.5***	***-0.5***		***-0.5***
Changes in holdings in subsidiaries Acquisitions of non-controlling interest						0.0	**0.0**
Equity at 30 June 2020	**0.1**	**69.2**	**-0.4**	**36.9**	**105.8**	**0.0**	**105.8**
Equity at 1 January 2021	**0.1**	**88.7**	**-0.2**	**35.1**	**123.6**	**0.0**	**123.6**
Comprehensive income							
Result for the financial period			0.0	-4.4	**-4.4**		**-4.4**
Total comprehensive income			***0.0***	***-4.4***	***-4.4***		***-4.4***
Transactions with equity holders							
Distribution of dividends				0.0	**0.0**		**0.0**
Share-based compensation				0.0	**0.0**		**0.0**
Transactions with equity holders, total				***0.0***	***0.0***		***0.0***
Equity at 30 Jun 2021	**0.1**	**88.7**	**-0.3**	**30.7**	**119.2**	**0.0**	**119.2**

CONSOLIDATED CASH FLOW STATEMENT **EUR million**	**1–6/2021**	**1–6/2020**	**1–12/2020**
Cash flow from operating activities			
Result for the financial period	-4.4	-5.8	-8.2
Adjustments:			
Non-cash items	0.1	0.8	3.7
Depreciation and amortisation	3.6	3.8	7.6
Financial income and expenses	1.4	2.1	4.0
Capital gains	0.0	0.0	0.0
Income taxes	0.4	-1.4	1.3
Changes in working capital:			
Change in trade and other receivables	-23.0	-15.5	-6.4
Change in inventories	-10.1	31.4	104.0
Change in trade and other payables	-5.4	1.6	-26.7
Interest paid and other financial expenses	-2.5	-3.4	-6.2
Financial income received	0.0	0.1	0.3
Income taxes paid	0.0	0.0	-0.1
Net cash from operating activities	**-39.9**	**13.5**	**73.4**
Cash flow from investments			
Investment in property, plant and equipment	-0.3	-0.1	-0.5
Investment in other intangible assets	-0.3	-1.2	-1.4
Proceeds from sale of tangible and intangible assets	0.0	0.0	0.0
Financial assets at fair value through profit or loss	0.0	0.0	0.0
Loans granted	0.0	-0.5	-0.5
Repayments of loan receivables	0.2	0.5	0.8
Net cash from investments	**-0.4**	**-1.3**	**-1.7**
Cash flow from financing			
Loans drawn	0.0	19.1	39.9
Loans repaid	-6.8	-43.8	-82.3
Lease liabilities paid	-1.2	-1.3	-2.5
Dividends paid		0.0	0.0
Paid share issue			20.3
Costs related to paid share issue			-0.8
Costs related to repurchasing own shares		-0.5	-0.5
Net cash used in financing activities	**-8.0**	**-26.5**	**-25.8**
Change in cash and cash equivalents (+/-)	***-48.3***	***-14.2***	***45.8***
Cash and cash equivalents at the beginning of the year	105.1	59.2	59.2
Effects of exchange rate change	0.0	0.0	0.0
Cash and cash equivalents at the end of the period	56.8	45.0	105.1

KEY FIGURES	1–6/2021	1–6/2020	1–12/2020
Net sales, EUR million	197.6	254.5	544.7
Net sales, change %	-22.3%	3.3%	-18.4%
Operating result, EUR million	-2.6	-5.1	-2.9
Operating result, as % of net sales	-1.3%	-2.0%	-0.5%
Result for the period, EUR million	-4.4	-5.8	-8.2
Result for the period, as % of net sales	-2.2%	-2.3%	-1.5%
Equity ratio, %	35.4%	30.7%	38.7%
Gearing, %	70.2%	63.4%	40.0%
Net gearing ratio, %	74.2%	119.7%	7.0%
Return on equity, ROE, %	-3.9%	-5.0%	-7.0%
Return on investment, ROI, %	-0.9%	-1.5%	-0.9%
Order backlog, EUR million	501.1	531.9	426.3
Personnel during the period, average	1,041	1,138	1,115
Personnel at the end of period	1,079	1,036	1,034
Gross expenditure on assets, EUR million	0.6	1.2	2.0
Equity / share, EUR [1)]	1.37	1.50	1.42
Earnings per share, EUR, basic [1)]	-0.05	-0.08	-0.12
Earnings per share, EUR, diluted [1)]	-0.05	-0.08	-0.11
Average number of (issue-adjusted) outstanding shares during the period, basic [1)]	87,124,865	70,428,760	71,012,014
Average number of (issue-adjusted) outstanding shares during the period, diluted [1)]	87,427,066	70,545,186	71,330,955
Number of (issue-adjusted) outstanding shares at the end of the period [1)]	87,159,445	70,310,580	87,089,901
Market value of share at the end of period, EUR million	141.5	90.6	117.6
Share prices, EUR [1)]			
Highest price, EUR	2.31	2.17	2.17
Lowest price, EUR	1.19	0.98	0.98
Average price, EUR	1.71	1.49	1.37
Price at the end of period, EUR	1.62	1.29	1.35

[1)] 1-6/2020 issue-adjusted due share issue in December 2020

LIABILITIES AND GUARANTEES EUR million	30 Jun, 2021	30 Jun, 2020	31 Dec, 2020
Loans covered by pledges on assets			
Loans from financial institutions	48.8	84.2	49.5
Debts on shares in unsold housing and real estate company shares	7.4	26.9	13.2
Instalment debts	0.1	0.4	0.3
Total	**56.3**	**111.5**	**62.9**
Guarantees			
Real-estate mortgages	9.4	9.4	9.4
Pledges	19.6	47.0	22.9
Absolute guarantees	0.3	0.3	0.3
Total	**29.3**	**56.7**	**32.6**
Contract guarantees			
Production guarantees	63.4	38.5	48.1
Warranty guarantees	18.3	21.1	22.5
RS guarantees	18.7	26.1	20.9
Payment guarantees	1.1	2.6	2.0
Total	**101.5**	**88.4**	**93.5**

The collateral for instalment debt is the financed equipment. Absolute guarantees include contract guarantees given on behalf of another Group company and loan guarantees for housing companies under construction. Pledges are inventory items and other financing assets pledged as collateral for financial institution loans and loans for housing companies under construction. Pledges are presented at carrying amount. Furthermore, a right of claim to a lease agreement entered into by the company was given as a collateral for a loan to a subsidiary.

REVENUE ANALYSIS EUR million	1–6/ 2021	1–6/ 2020	1–12/ 2020
Revenue recognised over time	141.9	180.7	376.7
Revenue recognised upon delivery	55.4	73.1	166.9
Rental income	0.3	0.6	1.0
Total	**197.6**	**254.5**	**544.7**

SEGMENT INFORMATION

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

RELATED PARTIES

The Group's related parties include Group companies, members of the Board of Director and the Group's top management as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures.

Transactions with related parties

EUR million	Sales 1–6/2021	Sales 1–6/2020	Purchases 1–6/2021	Purchases 1–6/2020	Sales 1–12/2020	Purchases 1–12/2020
Key personnel and their controlled entities	12.9	66.0	3.2	1.7	75.5	6.2
Total	**12.9**	**66.0**	**3.2**	**1.7**	**75.5**	**6.2**

EUR million	Receivables 30 Jun, 2021	Receivables 30 Jun, 2020	Liabilities 30 Jun, 2021	Liabilities 30 Jun, 2020	Receivables 31 Dec, 2020	Liabilities 31 Dec, 2020
Key personnel and their controlled entities	5.2	6.5	0.4	0.1	2.3	0.6
Total	**5.2**	**6.5**	**0.4**	**0.1**	**2.3**	**0.6**

A major part of related party transactions is connected with purchase of apartments and other premises from the company. The transactions are valued at the debt-free selling price of the completed site. Purchases are mainly equipment rents and other service purchases. There has been no transactions with associates.