Annual Report 2020

Lehto Group Plc

Annual Report 2020

Annual Review 2020

Lehto Group Plc

Annual Review 2020

Construction must be reinvented

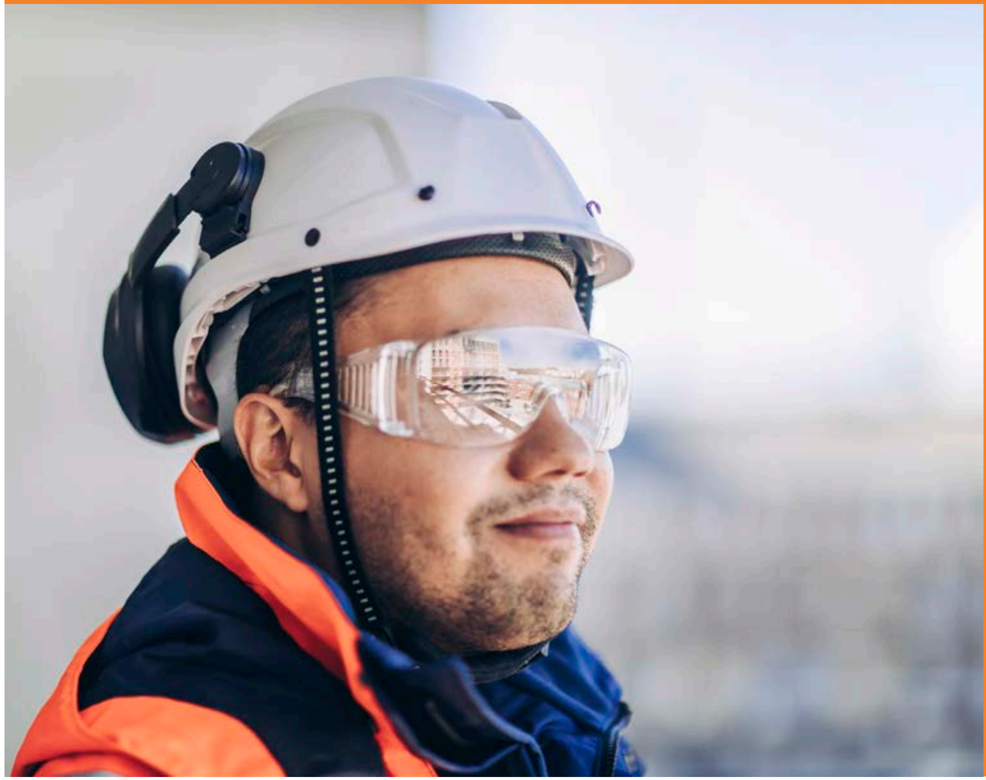
Towards high-quality, affordable, fast and ecological construction

Unlike other fields of industry, the construction sector has been hardly unable to increase its productivity for over 40 years. Ultimately, the end customers of builders are the ones who pay for the poor productivity of the industry – it causes problems such as quality defects, cost overruns and the lengthening of construction schedules.

We cannot let this continue. Construction must be able to keep up with other fields of industry and reinvent itself. We want to shake up construction and enhance quality, affordability and speed. To tackle climate change, we as an industry must be able to adopt an even more ecological approach to construction – our industry has a heavy carbon footprint.

Construction megatrends include industrial manufacturing, digitalisation and ecology. They not only describe the future of construction – but also Lehto's current way of building.

Lehto – forebuilder of a better tomorrow



Lehto Group is a Finnish construction and real estate group. Our company is reinventing construction and aims to improve the weak productivity of the industry. Thereby, we seek to create customer benefits and added value for both our customers and shareholders. Our purpose is to be “a forebuilder of a better future”.

The key aspects of our drive to reinvent the construction industry and improve productivity are strong design management, standardisation, industrial manufacturing and harnessing digitalisation. Our innovations enhance quality and make construction more affordable, faster and more ecological. Lehto’s way of building responds to the construction megatrends of industrial manufacturing, digitalisation and ecology.

The company has divided its operations into two service areas: Housing and Business Premises. In the Housing service area, we build apartment buildings using wood and concrete. In addition, we are in the care home construction business and carry out pipeline renovations, primarily in the Greater Helsinki area. In the Business Premises service area, Lehto builds retail premises; logistics, warehouse and production facilities; leisure facilities; large shopping and activity centres; and offices. We also build schools and daycare centres.

Lehto’s net sales totalled EUR 544.7 million in 2020, and the company employed 1,034 people at the end of 2020.

Lehto´s way of building

Lehto's state-of-the-art approach to building reinvents the industry. Its cornerstones are design management, standardisation, industrial manufacturing and harnessing digitalisation.

The first cornerstone is **design management**, which plays a key role in building a reasonably priced end product. The company seeks to manage construction projects from design to implementation specifically in order to keep costs under better control. Over 80 per cent of construction costs are determined at the design stage, which is why we want to keep this phase in our own hands.

Industrial manufacturing lies at the heart of Lehto's construction process – the company is the Finnish pioneer of this approach. Lehto engages in industrial construction – that is, innovative module and element production – at its own factories in Finland. Industrial manufacturing boosts productivity in construction, speeds up schedules, and ensures high quality compared to traditional construction. The utilisation of modular construction innovations enables work stages traditionally performed on the construction site to be transferred to an industrial environment, which reduces costs and improves quality as a result of better work organisation, stable factory conditions, simpler implementation models, increased repeatability, and faster production.

The third major cornerstone is **standardisation**. We do not always reinvent the wheel. Instead, we use tried-and-true solutions. Standardisation can be utilised in operating methods, a variety of processes and partner networks alike, and it typically accelerates the design and construction phases.

Harnessing digitalisation is part of Lehto's construction DNA. Lehto uses digital systems and processes throughout the construction process, from design to construction. Thanks to this, those working in different roles can utilise real-time information during the entire project. Information that is generated and saved during construction can be reused throughout the building's lifecycle, during renovation and complementary construction, and in the maintenance, operation and asset management of the building. Using digital processes significantly boosts the efficiency of design, procurement and production, as the various stages in the process are predictable, traceable and repeatable. With the aid of digital solutions, the company is able to enhance efficiency by shortening lead times, raising quality standards, and improving the property's usability. These factors create added value for both Lehto and its customers.

Lehto's way of thinking and building boldly challenges traditional construction. This approach hinges on **professional** employees who **have the right attitude**. Lehto employees shake up the construction industry and work together to create added value for our customers: more affordable housing, built fast to a high standard of quality, with a smaller carbon footprint for future generations.

Together, industrial manufacturing and harnessing digitalisation lay a good foundation for construction that supports eco-friendliness – for instance, industrial manufacturing seeks to reduce production losses, an aim that is supported by harnessing digitalisation.

Our service areas

Housing

In the Housing service area, Lehto builds new apartment blocks and balcony access blocks, and also carries out pipeline renovations, mainly in the Greater Helsinki area. The care home unit of Lehto's now-discontinued Social Care and Educational Premises service area was transferred to Housing in 2020.

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

Business Premises

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

Business premises are designed according to customers' needs and are built using the structural and spatial solutions that have been developed or tried and tested by Lehto. This area serves local, national and international customers; and also municipalities in the case of schools and daycare centres. Business Premises conducts most of its operations using a 'design and implement' model in which Lehto is responsible for both the design and actual construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and then designs and builds the property either wholly or partly at its own risk.

Our financial story 2010 – 2020

During the past decade, Lehto went through a strong phase of successful growth, followed by growing pains, and a phase of revitalisation and levelling off.

Lehto grew vigorously during the 2010s, and the company was profitable. In fact, the company achieved annual growth of almost 50 per cent in 2010 – 2018 and profitability in 2015 – 2017 was 9.9 – 11.2% of the net sales.

The company's operating result as a percentage of net sales started to fall in 2018, down to 5.2 per cent for the full year, and then decreased further to -6.3 per cent in 2019. In the opinion of the company's management, this decrease in profitability was a consequence of weaker process management arising from exceptionally strong growth, coupled with expansion into operations in which Lehto's strategic competitive advantages were difficult to leverage.

As of 2019, Lehto has focused on developing its basic processes and improving the profitability of its core business. Thanks to revitalisation measures, the company's operations are now significantly more manageable.

Revitalisation programme 2019 – 2020

As of 2019, Lehto has focused on developing its basic processes and improving the profitability of its core business. These efforts continued in 2020.

Revitalisation measures were started in January 2019 when the Building Renovation service area was wound down. We only undertake new complete renovation projects selectively and on the condition that the renovation is related to new construction projects or is a significant part of a larger commercial entity. During this restructuring, the pipeline renovation business was merged into the Housing service area and has continued to operate as part of it. The Social Care and Educational Premises service area in turn was merged into the Housing and Business Premises service areas in May 2020. Care home construction was transferred to Housing and the construction of schools and daycare centres to Business Premises.

In addition, as part of the revitalisation programme, Lehto has also adjusted production volumes and personnel numbers at its factories, such as by means of temporary layoffs, terminations and merging factory units. At the end of 2020, the manufacture of large roof elements was transferred from Humppila to Lehto's Hartola factory.

In day-to-day work, Lehto has been focusing even more on matters such as induction and training, site forecasting, guidelines, manuals and other aspects that enhance our processes. Revitalisation measures have clearly strengthened the manageability of the company's operations.

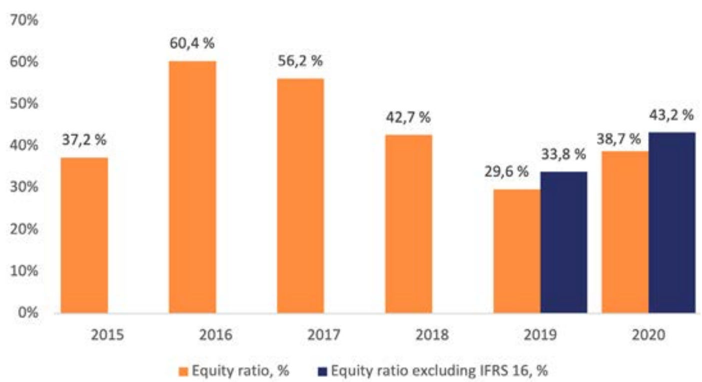
Financial figures 2015-2020

Net sales, EUR million

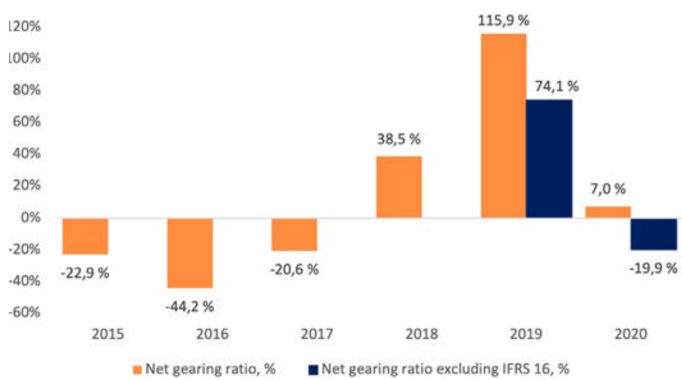
Operating result, EUR million and operating result, %

Number of personnel at the end of the year

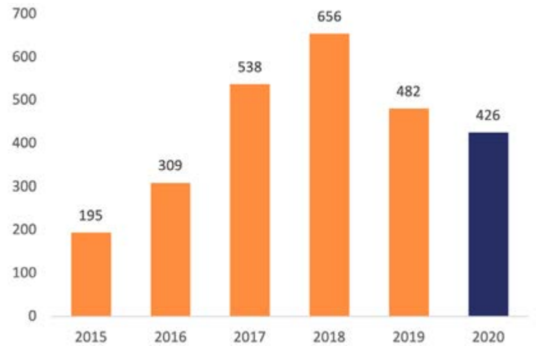
Equity ratio, %



Net gearing ratio, %



Order backlog, EUR million



CEO Hannu Lehto

Towards better tomorrow

"2020 showed that difficulties can be overcome with a strong will and hard work. Our employees focused on working without compromises towards Lehto's future. The focus of our operations was on implementing the revitalisation programme as well as stabilising our processes and operating methods. We have achieved good results in these efforts. Project preparation, evaluation and implementation are now carried out in a more well-established way, which can be seen in, for instance, the decrease in project margin variations. Profitability took a clear turn for the better and the operating result for the last quarter was EUR 4.9 million positive.

Our net sales were down about 18 per cent, especially due to the decrease in net sales from care home and housing construction. The downswing in the construction market that began in the previous year and the coronavirus pandemic that was felt during the entire year contributed to the decline in net sales.

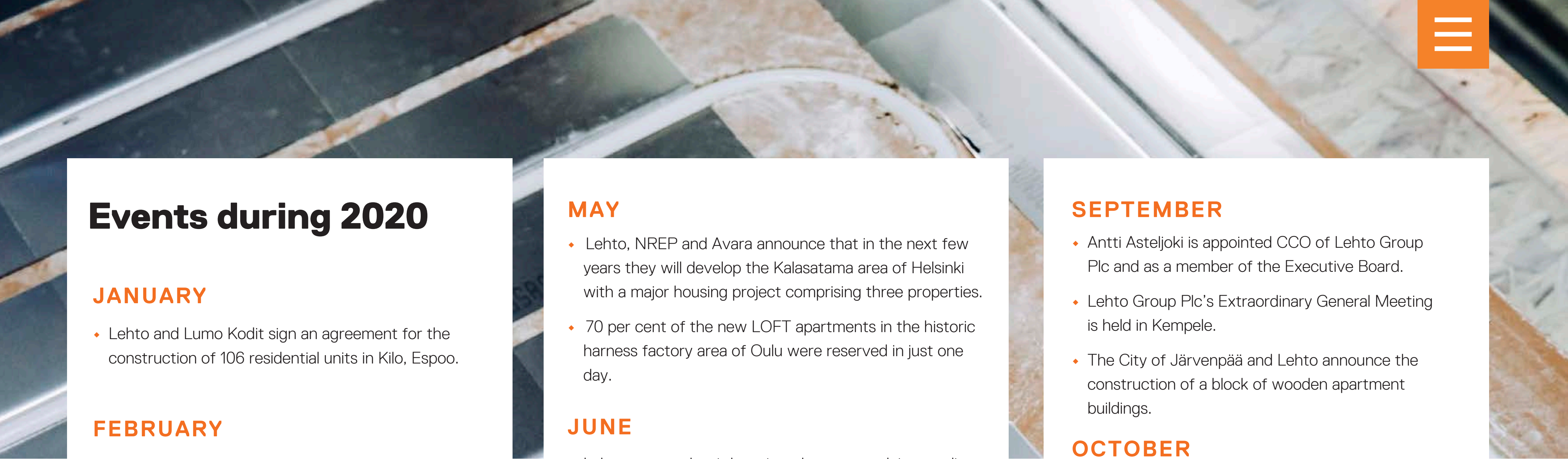
In the last quarter, we carried out a rights issue that was oversubscribed. As a result of the share issue and the positive trend in full-year cash flow, our cash and cash equivalents amounted to EUR 105 million at the end of the financial year. During 2020, we also repaid financial liabilities such that they amounted to EUR 80 million at the end of the year. Our cash and cash equivalents thus exceed our financial liabilities by EUR 25 million. Thanks to our excellent financial position, we are well-poised to implement our strategy and invest in the future.

In the autumn, we reviewed our strategy and concluded that our key competitive factors – design management, standardisation of products and operating methods, and factory production – are still at the heart of our operations. However, we identified some priority areas we must pay particular attention to in the 2021-2023 strategy period. These include sustainable construction, proactive sales, harnessing digitalisation, developing the customer experience as well as enhancing professional skills and a positive working atmosphere.

During the strategy period running until the end of 2023, we primarily seek to improve profitability strongly. Our objective is to also substantially increase the relative share of our housing production accounted for by wooden apartment buildings. We are also investigating possibilities for harnessing our expertise in prefabricated space elements more extensively in areas other than housing construction, leasing out temporary modular premises, and expanding our offering to lifecycle services.

I would like to thank our employees for all their work on overcoming the difficulties we faced in the year now ended and revitalising our operations. The company is now on solid ground and we can more clearly focus on our strengths.

As the company's situation stabilises, it is time to generate new energy for Lehto's next phase of development. At the beginning of May, Juuso Hietanen will take the helm as Lehto's new CEO. I myself intend to keep working on renewing the company and innovations. One of the main focuses of this work is modular wood construction, for instance."



Events during 2020

JANUARY

- Lehto and Lumo Kodit sign an agreement for the construction of 106 residential units in Kilo, Espoo.

FEBRUARY

- Lehto specifies its 2019 guidance and gives outlook for 2020.

MARCH

- Lehto announces that it will start to repurchase the company's own shares.
- Lehto reports that it has completed the cooperation negotiations on its restructuring programme and prepares for changes due to the pandemic situation.

APRIL

- Lehto withdraws its guidance on the 2020 financial outlook.
- Lehto's Board of Directors announces that it will at its own initiative decrease its remuneration. With this arrangement, the Board of Directors wanted to support the profitability of the company and participate in the same saving measures as the management and operative personnel.

MAY

- Lehto, NREP and Avara announce that in the next few years they will develop the Kalasatama area of Helsinki with a major housing project comprising three properties.
- 70 per cent of the new LOFT apartments in the historic harness factory area of Oulu were reserved in just one day.

JUNE

- Lehto reports that it has signed a new revolving credit facility agreement and is planning a rights issue.
- Lehto and NREP communicate about the continuation of their cooperation: Expansion work begins at the Bredis retail park in Laajalahti, Espoo
- Lehto announces that it plans to transfer the production of large roof elements to the Hartola factory.
- Construction of Fennovoima's administrative building in Pyhäjoki begins.
- The municipality of Inari and Lehto state that they will build a school and cultural centre in Ivalo.
- Lehto and Kojamo agree on the construction of 392 housing units in Helsinki and Espoo.

AUGUST

- Juuso Hietanen is appointed CEO of Lehto Group Plc.
- Lehto announces that it will build a joint Lidl and Tokmanni store in Nurmijärvi.
- Lehto reports that it will build the first large-scale textile processing plant in the Nordic countries in Paimio.

SEPTEMBER

- Antti Asteljoki is appointed CCO of Lehto Group Plc and as a member of the Executive Board.
- Lehto Group Plc's Extraordinary General Meeting is held in Kempele.
- The City of Järvenpää and Lehto announce the construction of a block of wooden apartment buildings.

OCTOBER

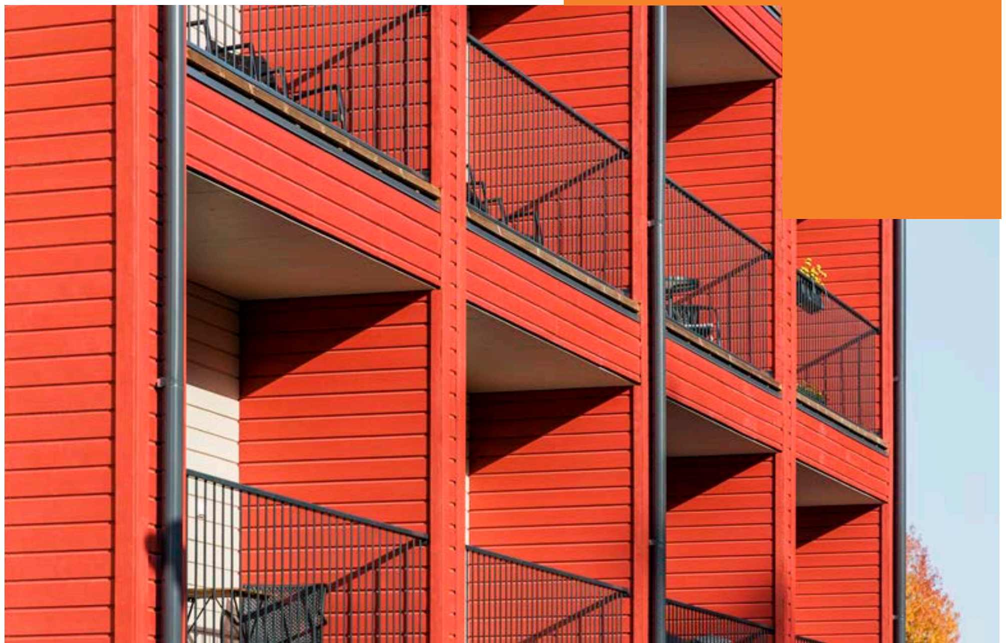
- NREP and Lehto agree on the construction of several wooden apartment buildings – more than 300 units of a new type of rental home in Finland.
- Lehto Group and a group of investors set out to create a solution to the lack of services that has long affected the Kivistö area of Vantaa.

NOVEMBER

- Lehto's Board of Directors resolves on a rights issue of approximately EUR 20 million and publishes the terms and conditions of the rights issue.
- The Finnish Financial Supervisory Authority approves Lehto's rights issue prospectus.
- Lehto announces that it will carry out one of Finland's largest pipeline renovation projects in Helsinki.

DECEMBER

- Final result of Lehto's oversubscribed rights issue is released.
- Lehto's new shares are registered with the Finnish Trade Register.



Rights issue

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

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

References from 2020

As Oy Marskinpuisto, Oulu

As Oy Tampereen Tuohi

Originator Oy's production and commercial building, Lahti

As Oy Kirkkonummen Tinankartano

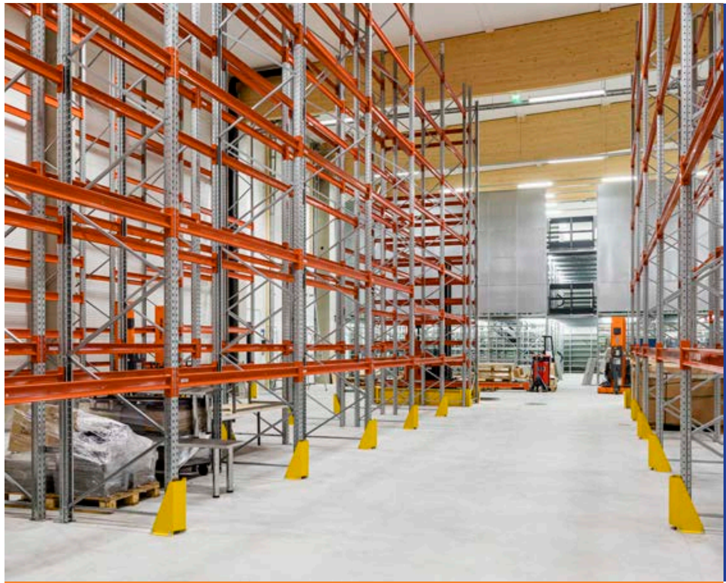
Yandex, Mäntsälä

Prisma, Varkaus

As Oy Oulun Åströmin Tori, Oulu

Meconet Oy´s factory, Äänekoski

Comments from our customers



“Originator Oy provides spare parts and repairs of heavy equipment. We wanted to build suitable workshop facilities for modern combinations and a large spare parts warehouse in Lahti. The project was under tight scheduling pressure. Lehto was in fact the only company that promised to complete the project in the agreed timeframe. Together, we found alternative approaches that avoided extra costs and thus kept the budget balanced. Only Lehto assumed the risk for preliminary design and tender calculation. With the other contractors, we would have been under pressure regarding the division of costs in the tender phase. Lehto submitted a single price tag – and that’s how we chose our contractor.”

Oskari Hentilä, CEO, Originator Oy

“Puuilo and Lehto have learned to know each other well. Discussions are easy. Replicating tried-and-true approaches yields benefits and supports new projects. Lehto has the ability to find good retail locations for our chain’s stores. In addition, they have good experts, project managers who handle the construction of our retail premises. They understand our needs. We can trust them and the experts give us good suggestions regarding space solutions.”

Juha Saarela, CEO, Puuilo

“We want to provide our tenants with the best residential experience and be a responsible player in developing better urban living. All of the high-quality apartments included in the agreement are in excellent locations next to good services, outdoor activities and transport connections, supporting us in generating profitable growth.”

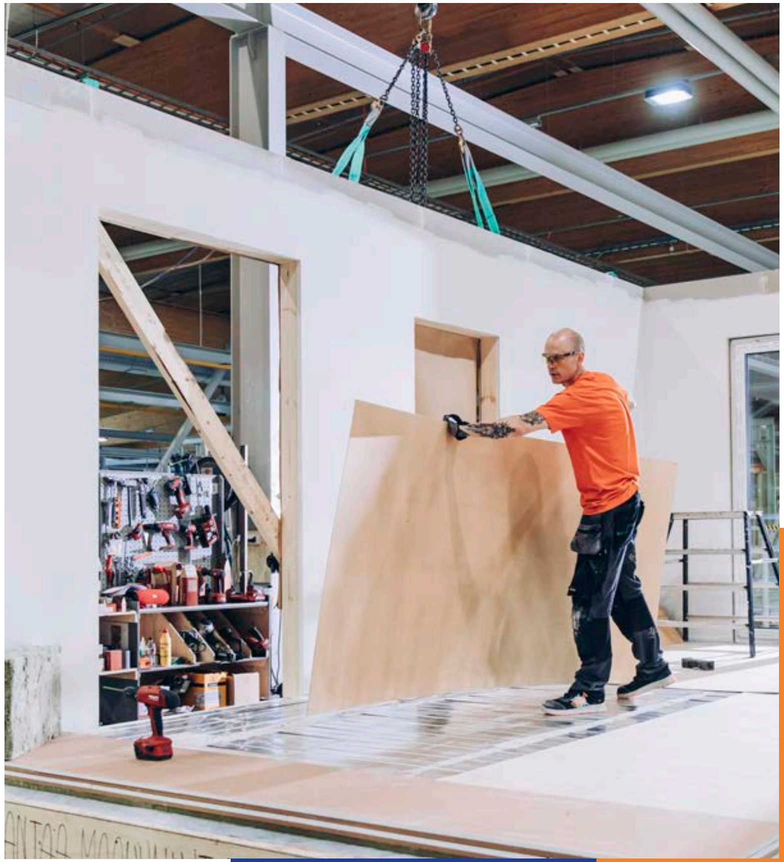
Ville Raitio, CIO, Kojamo

“We’ve learned from each other while working on retail location projects. As we have already completed more than ten retail location projects together, the entire process has become more efficient. We can implement numerous projects using the same construction method guidelines. Cooperation is smooth and efficient. Over the past years, we’ve learned much from each other and created well-functioning and durable retail buildings and premises for our customers – in recent years, we’ve accentuated energy efficiency in particular.”

Harri Koponen, Director, Store Network and Concept, Tokmanni

Construction megatrends

We have identified three important construction megatrends of the future that Lehto's approach supports well: industrial manufacturing, digitalisation and ecology.



INDUSTRIAL MANUFACTURING

In the future, more phases of construction work will no longer be done on site, but at factories. Lehto is a Finnish pioneer in industrial prefabrication. We have the largest domestic factory capacity of our own. Carrying out construction work at factories enhances efficiency and also ensures a moisture-controlled production chain. One of the advantages of mass production is continuous quality improvement. However, mass production does not mean that our customers are unable to make choices that are important to them, such as in terms of interior design.

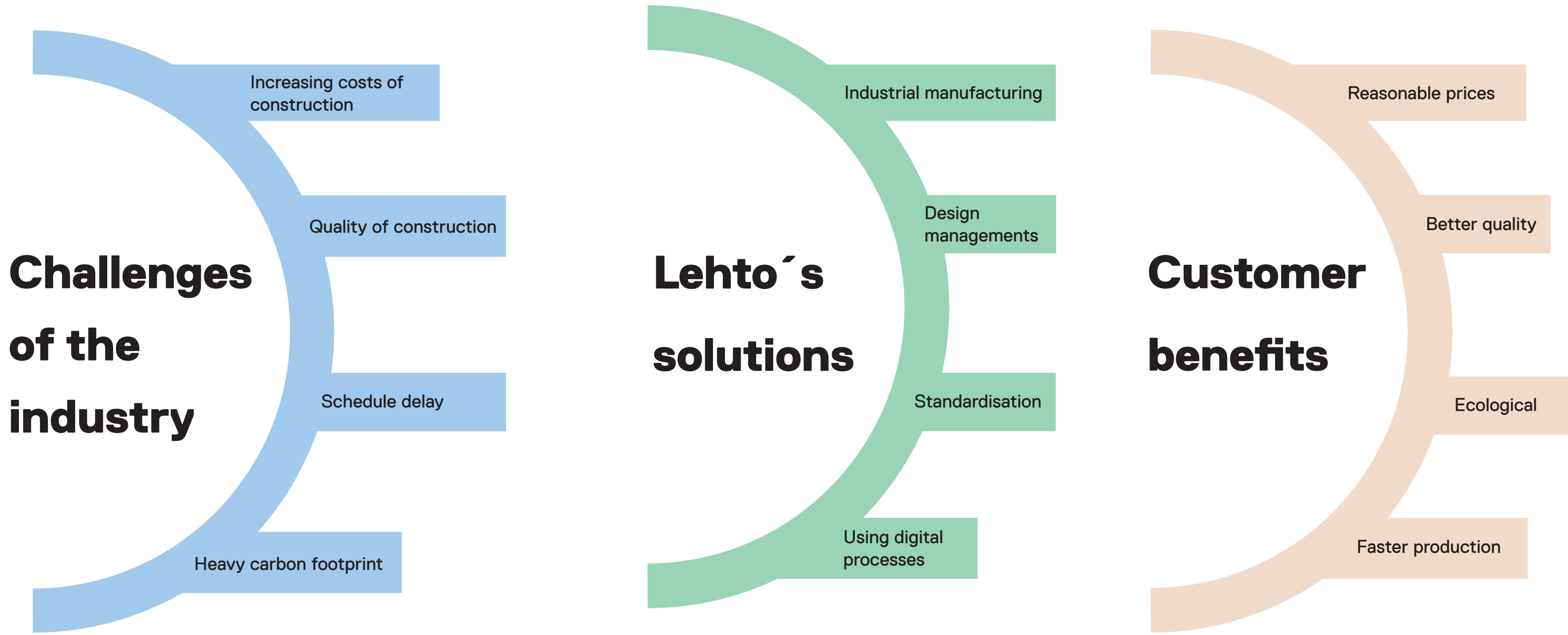
DIGITALISATION

Lehto employs the strategic LEKA project to digitalise construction operations. It has been part of our day-to-day operating model since 2017. These days, all projects are started up using information models. Lehto uses information models throughout the construction process, from design to construction. Thanks to this, those working in different roles can utilise real-time information during the entire project.

ECOLOGY

Lehto is interested in sustainable carbon-neutral construction and seeks to gradually move towards the carbon-neutral circular economy. Ecological construction currently revolves around Lehto's wooden apartment building concept, in which the primary raw material is Finnish wood. The concept utilises industrial manufacturing, which supports the ideology of sustainable construction by reducing waste and loss. In addition, many projects company-wide make use of geothermal heat and other energy-efficiency solutions.

From challenges to the solutions



Strategy

Improving productivity in construction has formed the core of Lehto's strategy for years. In the construction sector, work productivity based on added value has remained at almost the same level as in the 1970s. In the company's opinion, the most typical problems in the sector are the high cost of construction, the slow and laborious nature of project implementation, defects in the finished product, and the environmental loading caused by construction.

Lehto's strategy revolves around solving the aforementioned problems and creating an innovative corporate culture that actively develops building construction solutions that will moderate costs, improve quality, shorten lead times, and reduce environmental impacts. **The cornerstones of Lehto's strategy are design management, standardisation, industrial manufacturing as well as digital processes and service chain.**

During this strategic period, Lehto is primarily seeking a strong improvement in its profitability. Lehto's objective is to substantially increase the relative share of the company's housing production accounted for by wooden apartment buildings. During the current strategy period, which runs until 2023, the company is not specifically seeking internationalisation. Instead, the company's aim is to continue and maintain its early-stage operations in Sweden, and to focus on launching and selling prefabricated wooden apartment buildings in Sweden. A pilot project is expected to start up in Sweden in 2021. During this strategic period, the company will be investigating possibilities for utilising its prefabricated space elements more extensively in areas other than housing construction, leasing out temporary modular premises, and expanding its offering to lifecycle services.

During the next three-year strategy period from 2021 to 2023, Lehto's special focus areas are

- design and productisation
- factory production and productive sites
- sustainable construction
- active sales
- conceptualised products and services
- harnessing digitalisation
- development of the customer experience
- development of the personnel working atmosphere

Industrial manufacturing

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. Since the end of 2020 Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii.

The products manufactured for use in housing and business premises are: load-bearing large roof elements, combined kitchen and bathroom modules, bathroom modules, apartment elements, windows, and riser elements for pipeline renovations. Although Lehto primarily manufactures modules and elements in its factories for its own use, the company does engage in some external sales in this area.

The most extensively productised industrially manufactured product is Lehto's wooden apartment building – the flats are made at the factory. The space elements, including their decor, are finished at the factory, after which they are installed on site.

Lehto´s factory production

OULAINEN FACTORIES

- Space elements for modular apartment buildings
- Fixtures: kitchens, bedroom closets, hallway closets, kitchen islands, bathroom fixtures
- Windows and balcony doors
- Technical Studios for apartment buildings, kitchen-bathroom modules for care homes
- Concrete slabs for Technical Studios
- Concrete hallway elements
- Building technology containers
- Plumbing elements

HARTOLA:

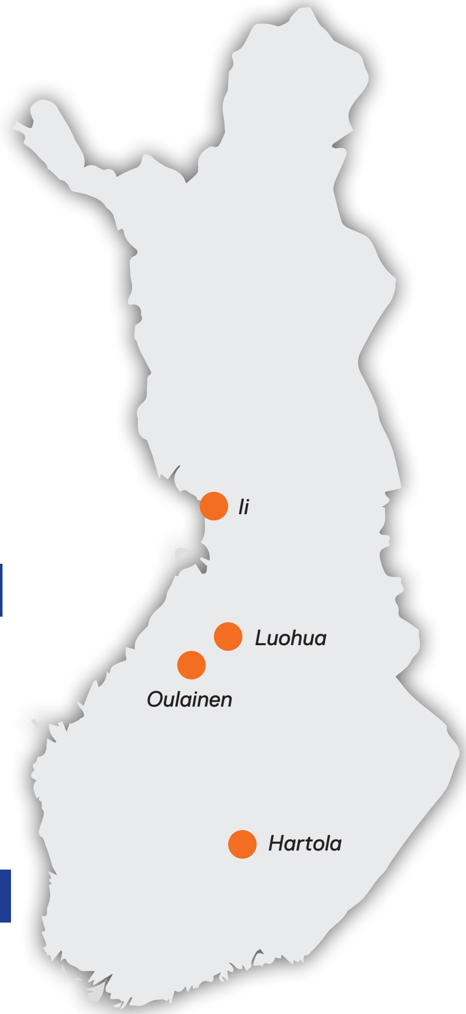
- Space elements for modular apartment buildings
- Space elements for daycare centres
- Space elements for schools
- Large roof elements

LUOHUA, SIIKAJOKI:

- Wooden wall elements
- Partition walls
- Wooden detachable
- elements

II:

- Wooden wall elements
- Partition walls
- Wooden detachable elements



Products from our factories

KITCHEN AND BATHROOM MODULES

Kitchen and bathroom modules are mainly used in the construction of apartment buildings and care homes. The modules are manufactured under stringent quality control that ensures not only even quality, but also considerably better moisture control than in traditional construction. The use of modules also facilitates scheduling the construction site phase, which speeds up the completion of the properties and enables significant cost savings. The completed factory-made modules are lowered into the interior through the roof.

APARTMENT ELEMENTS

Lehto's apartment elements are completely finished apartments manufactured on the assembly line. The completed apartments are installed on the construction site on top of prebuilt foundations. This improves the quality of construction, ensures a moisture-controlled process and reduces the construction time on site by almost a half compared to traditional construction. Apartment elements can be used to build 2–4-storey small apartment buildings. Apartment elements are produced at the Oulainen and Hartola factories, for instance.

LARGE ROOF ELEMENTS

Lehto's large roof elements are manufactured nowadays at our Hartola factory. By using finished elements, we can install up to 1,500 m² of roof a day. Lehto's large roof elements come equipped with lines for sprinkler systems, electricity wiring and installation rails, for example, according to the customer's wishes.

BUILDING TECHNOLOGY CENTRES

Lehto's building technology centres contain complete ventilation machine rooms that include pre-installed ventilation equipment, a district heating distribution centre, building cooling equipment, a switchboard, and a central building automation controller. The building technology module can be added as a whole to the building, after which its systems are connected to the piping installed onsite. After connection and technical adjustments, the building technology is ready to use.

PLUMBING ELEMENTS

The plumbing elements developed by Lehto considerably speed up the implementation of plumbing renovations and bring savings on overall costs to housing companies. Our stylish plumbing elements are manufactured in our factory under carefully monitored conditions. The use of plumbing elements reduces the space needed for new pipelines and ensures both uniform quality and top-class leakage security. It also considerably reduces the logistic challenges of the renovation. The plumbing elements contain a wide range of prefabricated technology, such as heating, water, drain and electricity rises. A modern, easy-to-clean wall-hung toilet is also integrated into the element. In large pipeline renovation projects, the plumbing elements can be customised.

FIXTURES

At the end of 2018, Lehto was already one of the largest manufacturers of fixtures in Finland. We manufacture kitchens, bedroom and hallway closets, kitchen islands, and bathroom fixtures, for instance.

Our employees

In 2020, Lehto had 1,115 employees on average. The number of employees declined by 240 largely due to changes in operations, the business environment and economic cycle. Total employee turnover during the year was 20.2 per cent (2019: 26.0%). At the end of the year, there were 1,034 active employees, of whom 884 (85.5%) were men and 150 women (14.5%). The ratio of salaried employees (560/54%) to non-salaried employees (474/46%) grew during the year. Employees in permanent employment relationships accounted for 94.8 per cent of personnel. Those in fixed-term employment (5.2%) were mainly trainees as part of their education or substitutes, or engaged in project work or other agreed-upon temporary tasks.

In 2020, Lehto conducted two major rounds of employee cooperation negotiations. The negotiations carried out at the beginning of the year were part of the company's revitalisation programme and concerned the Housing and Social Care and Educational Premises service areas. The negotiations sought to downscale the offerings of the Social Care and Educational Premises service area and reorganise the remaining functions as part of the Housing and Business Premises service areas. As a result of the negotiations, care home construction was transferred on 1 May to the Housing service area and the construction of schools to Business Premises. The negotiations cut person-work-years by a total of 69 and 29 persons transferred to other positions.

The second round of employee cooperation negotiations was initiated when the coronavirus pandemic clouded the business outlook in early spring. On 25 March 2020, Lehto started employee cooperation negotiations on potential temporary layoffs applying to all personnel. These negotiations were carried out due to the coronavirus pandemic, which is expected to have direct, indirect and possibly also long-term impacts on the business environment. According to the company's estimate, the changes caused by the pandemic might be related to delays in project start-ups and disruptions in the availability of materials and subcontracting resources. As a result of the negotiations, measures were initiated, mainly involving part-time layoffs. The layoffs extended until the end of the year and achieved cost savings of about 50 person-work-years.

The Group conducted a People Power HR survey at the turn of August and September. The overall rating declined slightly from the previous result (2018/AA) to A+. This is partly due to the personnel impacts of the revitalisation programme in the first part of the year and the coronavirus measures. The HR survey revealed that Lehto's strengths are: managerial work (which remains at a good level), appropriate workspaces and equipment, and the usefulness of performance reviews. The development targets identified in the survey were: the development of the customer experience and the improvement of both the employer image and opportunities to have an influence on job tasks. The Group's management highlighted the following as their own development targets: taking steps to increase personnel participation, communicating about decisions and encouraging cooperation across unit boundaries.

In October, the Group held a Lehto Day for all employees, inviting everyone to enjoy a break together. Coronavirus restrictions were taken into consideration. Employees gathered at their workstations for cake and coffee, and an entertaining programme organised at the Vantaa office was streamed to all Lehto offices, factories and sites around Finland. The highlight of the event was the recognition of 14 persons as Lehto Employees of the Year, as voted on by their colleagues. The Lehto Day was held for the first time.

The development of in-house training continued in 2020. The induction programme was enhanced to cover the first six months of a new employment relationship. During this period, induction is carried out under the guidance of the new employee's immediate supervisor and designated teammate mentor. A training module on work ability management was added to the Management Academy 1 programme in cooperation with occupational healthcare and the occupational pension insurance company. During work on the operating manual, the structure of the Production Academy was honed to better meet the needs of production design and site management. The Career Promise programme for students was downscaled due to the coronavirus pandemic. In 2020, 37 students participated in the programme.

The year was challenging to the personnel due to the pandemic. Despite this, the personnel survey indicated that occupational wellbeing and health, as well as motivation to work and the management of own work are in good shape. The sick leave percentage (3.25%) can be considered to be good in the context of the industry. During the past year and a half, we have made a concerted effort to enhance occupational safety in the Group. Our success in these efforts is indicated by the improvement in the workplace accident frequency, which was 23 in 2020 (2019: 29, 2018: 43).

The year was challenging to the personnel due to the pandemic. Despite this, the personnel survey indicated that occupational wellbeing and health, as well as motivation to work and the management of own work are in good shape.

Lehto Day

We rewarded our fourteen colleagues on Lehto Day. They stood up as a Lehto Employee of the Year in our personnel survey by given positive hints.

Lehto as an Employer

Five Lehto Employees of the Year share their thoughts about Lehto

ANTTI MÄÄTTÄ, DEVELOPER MANAGER, HOUSING

"At Lehto, everyone can make their voice heard. Everyone contributes to development, no matter what their job title is. Teamwork is not just a word – we truly pull together to get things done. For me, cooperation means that we are open and have a good atmosphere – you can ask for advice when you need it. Good team spirit plays a major role in the company's success, but it also boosts coping at work and stamina. We can make it through even the most trying times by working together."

KAISU OKKONEN, PAYROLL ACCOUNTANT

"I've worked here for almost 14 years and now serve as a payroll accountant and team leader. The company has grown over the years – for this reason, I've always had plenty of challenges and things to learn at Lehto, and haven't had to go elsewhere to find them. Our culture is relatively flexible and agile, and the people are approachable. The best thing about my job is the team. We share the same mindset – we're experts who get things done and have the same goal. The work is hectic and we often fight against the clock, but working with nice people maintains your enthusiasm, drive and high performance even when things are busy."

KALLE HUHTALA, GENERAL WORK SUPERVISOR, BUSINESS PREMISES

"I appreciate the fact that everyone has a real opportunity to make a difference at Lehto – almost without exception, new ideas are discussed and their feasibility in practice is thoroughly analysed. An atmosphere that encourages coming up with new ideas is in fact essential to enable Lehto to be a pioneer in the construction industry. The construction industry in general easily tends to fall back on the same old ways of working, but I've never run into this problem at Lehto. We proactively look for better ways of doing things that break from convention."

MARKKU TOLONEN, CARPENTER, OULAINEN FACTORY

"We're always developing things – yes, I think that's the Lehto spirit. Now that we've overcome the painful consequences of the company's strong growth, I feel that we're once again heading in a better direction."

LAURA HIETANEN, PROJECT MANAGER, DESIGN

"The Lehto spirit means having an open-minded attitude and the courage to try something new, openly sharing information with colleagues, helping your mates in times of ups and downs, and both taking and assigning responsibility. Cooperation between the entire project team throughout a project plays an important role in our day-to-day work – having confidence in each others' professional expertise is key."

Teamwork is not just a word – we truly pull together to get things done.

Management

Juha Höyhtyä
EVP
Housing

Timo Reiniluoto
EVP
Business Support Services

Antti Asteljoki
Chief Commerciel Officer

Kaarle Törrönen
EVP
Human Resources

Hannu Lehto
CEO

Veli-Pekka Paloranta
Chief Financial Officer

Arto Tolonen
Chief Development Officer

Jaakko Heikkilä
EVP
Business Premises

Jukka Haapalainen
EVP
Industrial Manufacturing

Juuso Hietanen has been appointed as Lehto’s new CEO

Juuso Hietanen (43), M.Sc. (Tech.), will take up the position of Lehto Group Plc’s CEO in autumn 2021 at the latest.

Juuso Hietanen was the CEO of Bonava Finland prior to this appointment. Earlier, he had been in leadership duties in housing production with NCC in Finland, Russia and the Baltic states since 2004. Juuso Hietanen has a master’s degree in engineering.

“Lehto Group is a growing company that is reforming the construction industry. I see the company’s strategy as an excellent response to the changing trends in construction and to the change in demand. My own experience of the international construction market will also strengthen Lehto’s internationalisation opportunities,” says Juuso Hietanen.

After Juuso Hietanen has stepped into the position of CEO, the current CEO Hannu Lehto will stay on in the company’s employ. He will work in a key role, with responsibility for development and innovations.

Shares and shareholders

SHAREHOLDERS 31 DECEMBER 2020

	Number of shares	%
Lehto Invest Oy	33,914,760	38.8%
Kinnunen Mikko	1,446,454	1.7%
Saartoala Ari	1,000,485	1.1%
Sr eQ Pohjoismaat Pienyhtiö	947,045	1.1%
Danske Invest Finnish Equity Fund	915,718	1.0%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	900,000	1.0%
Keskinäinen Työeläkevakuutusyhtiö Elo	711,309	0.8%
Veikkolainen Paavo	700,073	0.8%
OP-Henkivakuutus Oy	690,235	0.8%
Sr Säästöpankki Pienyhtiöt	651,512	0.7%
10 LARGEST SHAREHOLDERS	**41,877,591**	**47.9%**
Nominee-registered	7,273,031	8.3%
Other shareholders	38,188,788	43.7%
TOTAL	**87,339,410**	**100.0%**

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%
1 - 100	206,164	0.2%
101 – 1,000	3,666,974	4.2%
1,001 – 10,000	13,669,373	15.7%
10,001 – 100,000	13,732,527	15.7%
100,001 – 1,000,000	13,697,354	15.7%
over 1,000000	42,367,018	48.5%
TOTAL	**87,339,410**	**100.0%**
where of Nominee-registered	7,273,031	8.3%

SHAREHOLDINGS BY SECTOR

	Number of shares	%
Companies	42,279,746	48.4%
Financial and insurance institutions	9,651,150	11.1%
Public sector organizations	1,638,019	1.9%
Households	32,994,496	37.8%
Non-profit organizations	213,216	0.2%
Foreign countries	562,783	0.6%
TOTAL	**87,339,410**	**100.0%**
where of Nominee-registered	7,273,031	8.3%

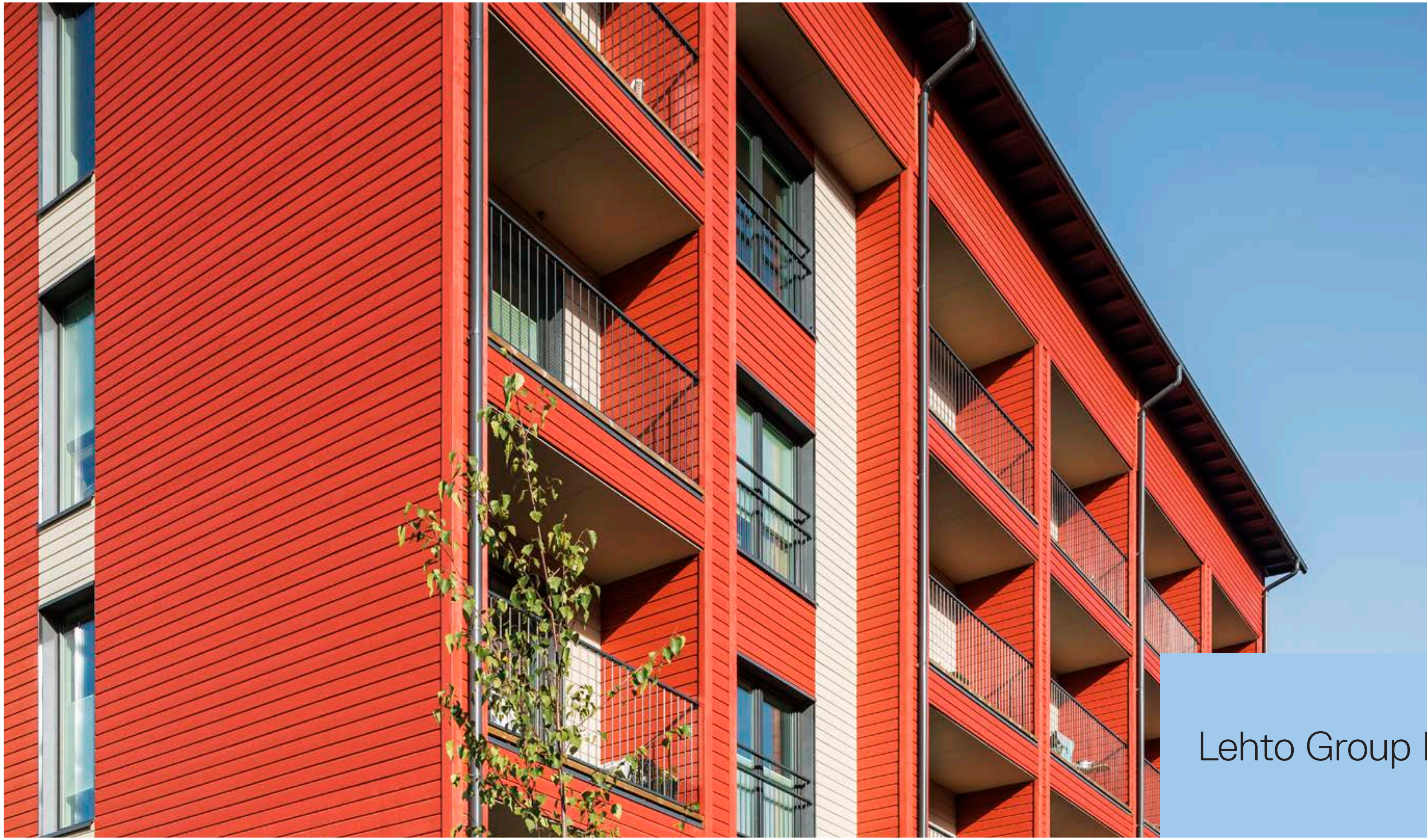
SHARE PERFORMANCE 2020

- Closing price of the share EUR 1.35
- Lowest rate during the review period EUR 0.98
- Highest rate during the review period EUR 2.17
- Trading 45,969,542 shares

LEHTO

Forebuilder of a better tomorrow

Corporate Responsibility Report



Lehto Group Plc

Corporate Responsibility Report 2020

Highlights of 2020

1. Occupational safety improves

In 2020, the company's accident rate decreased compared with the previous year. In 2019, the accident rate was 29, whereas it was 23 in 2020. However, we still have plenty to do in this area – our aim is to further reduce accidents at work and improve the safety level in all of our operations.

2. Wood construction is at the heart of sustainable construction

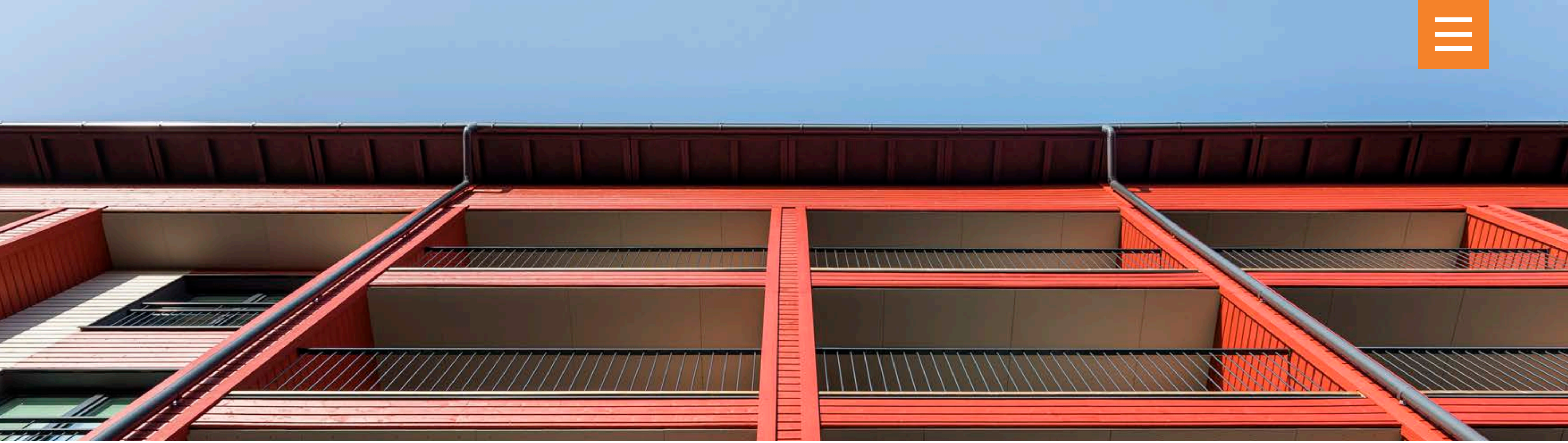
Lehto's approach to sustainable construction emphasises wood construction in particular and the company aims to increase the share of operations accounted for by wood in housing construction. Lehto seeks to gradually transition to the carbon-neutral circular economy.

3. Becoming familiar with the ethical guidelines

Our ethical guidelines training package – Fair Play Rules – was added in 2019 to our induction training for all new employees. By the end of 2020, about 87% of employees had completed this training.

4. Lehto joins the Green Building Council

In 2020, Lehto also became a member of the cooperation network of the Green Building Council (GBC) with the aim of contributing to the creation of sustainable construction solutions. GBC and its networks are leading the way in operating models for sustainable development and play an important role in implementing and developing regulations for the industry and their joint adoption.



Business model

Lehto Group is a Finnish innovator in the construction sector. Lehto seeks to make construction faster, more affordable, and higher in quality. The key competitive elements that enhance productivity are design management, standardisation, industrial production and harnessing digitalisation. Lehto's goal is to build efficiently and save resources, and to reduce the material waste generated in construction.

Lehto Group's net sales amounted to EUR 544.7 million in 2020 and it engages in business operations in two service areas: Housing and Business Premises. Lehto has factories in four municipalities. They produce large roof elements, wall elements, bathroom and kitchen modules, housing modules, building technology centres, renovation elements, doors and windows, and fixtures. The largest units are located in Oulainen and Hartola. All our factories are located in Finland, and the bulk of our outsourcing is contracted in Finland and the European Union.

On 31 December 2020, Lehto Group had 1,034 employees, of whom slightly under half were office workers, about a quarter factory workers, and the remainder construction workers. Subcontracting and hired resources are also used at construction sites for specific work phases, during start-ups, and for short-term, urgent work. In the Lehto Group, about 87 per cent of employees have permanent employment contracts and about 13 per cent have fixed-term employment contracts. Fixed-term contracts are generally used for projects, substitute positions, summer jobs or traineeships. Most of Lehto's employees work in Finland. Our Swedish operations are handled by a team of fewer than ten people.

Thanks to our efficient factory construction, Lehto Group is able to reduce building and housing costs and offer people reasonably priced homes with excellent travel connections – even in growth centres. Lehto completed 1,459 new apartments and 21 new business premises in 2020.

Responsibility focus areas and management

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

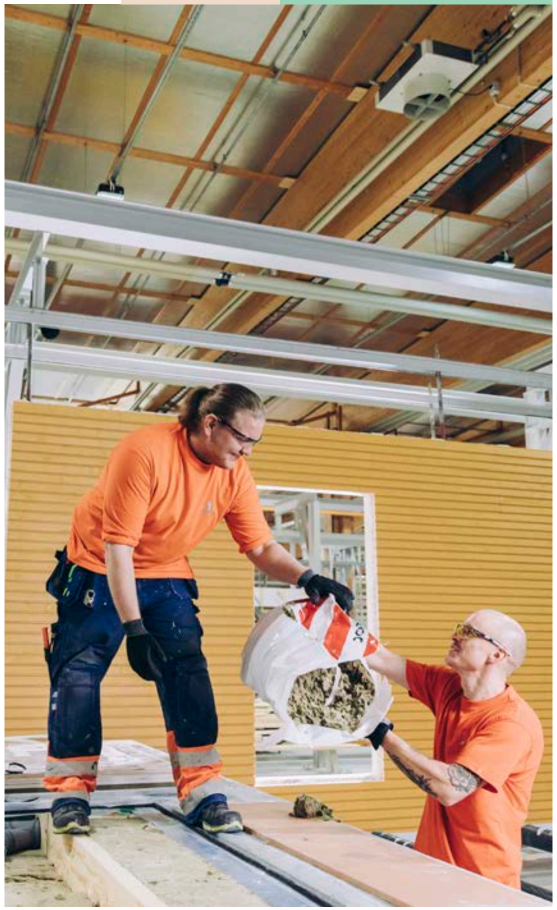
Spring 2020 General Meeting elected Helena Säteri to the Board of Directors. As the former Director-General of the Ministry of the Environment, she brings a strong perspective on environmental issues and sustainable construction to the work of the Board.

In 2020, Lehto also became a member of the cooperation network of the Green Building Council (GBC) with the aim of contributing to the creation of sustainable construction solutions. GBC and its networks are leading the way in operating models for sustainable development and play an important role in implementing and developing regulations for the industry and their joint adoption.

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

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

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



This report deals with the required issues as follows:

ACCOUNTING ACT REQUIREMENT	LOCATION IN THIS REPORT
Description of the business model	Business model
Environmental issues	Responsible construction
HR issues	Personnel wellbeing
Social responsibility	Personnel wellbeing
Anti-corruption activities	Responsible business practices
Human rights	Responsible business practices, personnel wellbeing

Responsible construction

Responsible construction is one of Lehto's three focus areas in responsibility and it involves environmental impacts in particular. Buildings have the greatest environmental impacts when they are in use, but the decisions that affect these impacts are made during the design and construction phases.

Methods to measure and control energy and water consumption play a key role in reducing environmental impacts, but it is also important to educate building users, so they will adopt energy- and environment-saving practices.

Lehto improves its productivity with an approach to construction that employs highly standardised technical solutions and operating methods, and by using prefabricated elements and modules manufactured in its own factories. This improved productivity will also be reflected as a reduction in environmental loading. For example, factory production boosts the efficiency of logistics and reduces emissions from transport, as elements and modules are transported in large batches and fewer delivery runs will be required. Material waste is also considerably lower in factory production than in on-site production.

The key promises of Lehto's project to promote carbon-neutral housing construction that was launched in 2018 are in-house industrial production, resource and energy efficiency, and the promotion of sustainable wood construction and the sustainable use of wood. In addition to the carbon footprint, we make a major contribution to the carbon handprint, helping cities, municipalities and residents to adopt carbon-neutral lifestyles. Our carbon-neutrality pledge is based on proactively reducing full-lifecycle emissions and emissions from construction processes, practices, building use, and the materials employed, increasing carbon sinks, and providing reliable compensation for the remaining emissions. Lehto is a member of Green Building Council Finland and actively participates in the development of sustainable construction.

The two key indicators for responsible construction are the waste recycling rate and the share of electricity accounted for by renewable energy. The waste recycling rate improved slightly/significantly on the previous year and stood at 21%* in 2020. The company fell short of the target for the waste recycling rate. In the company's estimation, employees in 2020 were strongly focused mainly on executing the revitalisation programme, due to which less attention was paid to other objectives. Particular attention will be paid to this objective in 2021. The share of electricity accounted for by renewable energy was 75%**.

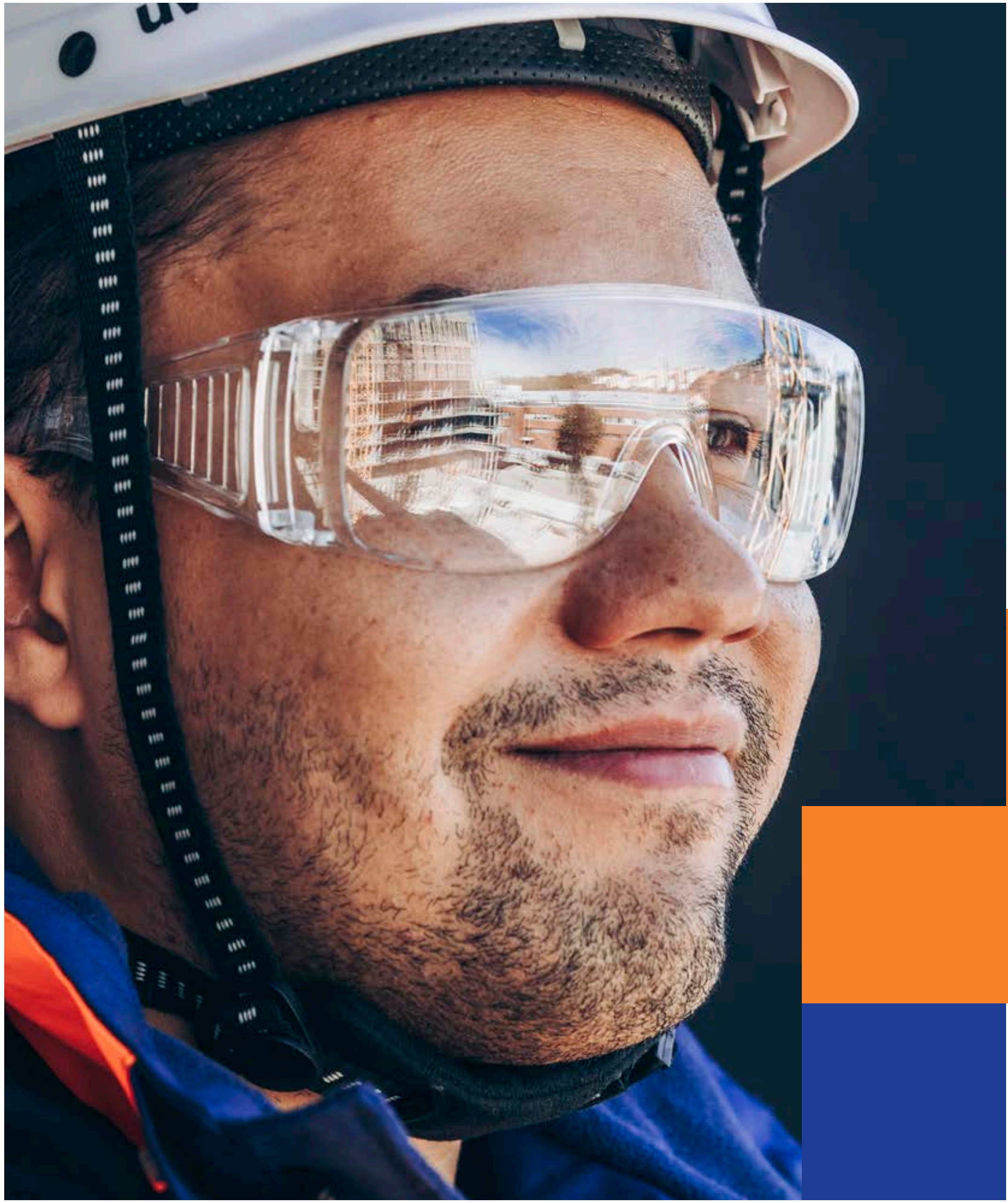
At Lehto Group, the CEO is ultimately responsible for environmental issues. Responsibility for practical environmental management is assigned as follows: EVPs of the service areas for construction; the factory production manager for factory production; and the Group Sourcing Director for centralised purchasing. Environmental issues are discussed in the management teams as part of routine business management and development.

The key environmental impacts during construction include:

- **Consumption of natural resources such as energy, materials and water**
- **Material waste**
- **Impacts on human health and biodiversity** (such as the harmful effects of chemicals on humans, organisms, soil and water)
- **Waste and emissions, including liquid and gaseous emissions** (such as carbon dioxide)

**Covers about 85% of waste; the information is based on figures received from the service provider*

*** Covers over 90% of purchased electricity; the information is based on figures received from the service provider and calculations based on these figures*



In their construction and demolition work, Lehto Group and its subcontractors handle hazardous substances such as coolants, oils, solvents, asbestos, or materials that have been exposed to mould or construction dust. If released into the environment, these materials may cause environmental contamination and therefore damage. The company's most significant environmental risk factors stem from the potential discharge of hazardous substances into the environment in the course of Lehto's or its subcontractors' operations due to, for example, errors or negligence in the handling or disposal of hazardous substances. In all of its activities, Lehto seeks to ensure that its business complies with all current environmental legislation and regulations. In addition, standardised practices and guidelines are in use at factories and sites.

Carbon dioxide emissions from construction contribute to climate change. Lehto's climate risks can be considered to include an increased flood risk and extreme weather conditions that may impact both zoning and the operational capacity of factories and construction sites.

Special protection of endangered species is implemented on a case-by-case basis in cooperation with the authorities in order to avoid negative construction-phase impacts on the environment.

From the perspective of environmental protection, zoning and construction are guided by the Nature Conservation Act. The authorities provide regulations for nature protection in the zoning phase, if needed. If there are populations of endangered animals and/or plants in the planned area, the area may not be zoned for building use.

Personnel wellbeing

Employees are the most important asset for Lehto Group's strategy. The HR plan based on our strategy takes into account any changes occurring in the Group's operations that have an effect on the structure, number and professional skills of Lehto personnel.

The construction industry is sensitive to business cycles. Stabilisation in the industry manifests itself as replacement recruitment. Business cycles led to a reduction in demand for human resources during the year. In February, Lehto initiated employee cooperation negotiations as part of its revitalisation programme with the aim of focusing even more strongly on its strategic competitive advantages: standardisation and factory production. As part of this focus, Lehto reduced the offerings of the Social Care and Educational Premises service area both regionally and in production terms and reorganised its operations as part of the Housing and Business Premises service areas.

In the case of layoffs or redundancies, we use the possibilities provided by change security to improve the situation of employees under threat of redundancy. If employees are at risk of losing their capacity to work or being dismissed, Lehto takes advantage of local employment office services and vocational training in accordance with our training plan.

Coronavirus pandemic

In March, the coronavirus pandemic clouded the market outlook. Lehto reacted to this with Group-wide cooperation negotiations to safeguard its financial standing and solutions for changes in the workload situation were sought with part-time and temporary personnel layoffs. Based on the management's assessment of the impact of the coronavirus crisis, the company's Board of Directors and CEO and the members of the Group Executive Board and the management teams of the service areas also lowered their remuneration for a period of five months on their own initiative.

Minimising the effect of coronavirus´ was one of the focus points in the spring. Lehto's HR drafted coronavirus guidelines for personnel, laying down Group-specific operating models for the implementation of nationwide guidelines. Many office personnel started working remotely, essential meetings were held online and site visits were limited to supervision and control visits. Partitions were installed between office workstations, and face masks paid for by the company were introduced for use during commuting and work tasks in which a safety distance cannot be maintained.

In spite of all the precautions, a cluster of 13 coronavirus infections struck a Lehto site in the Greater Helsinki area. One of those infected was a Lehto employee, while the others were on the payroll of subcontractors. All of those exposed to them were successfully identified. The infected and exposed persons were quarantined.

In August majority of office personnel came back to work in office. The company decided to continue operating in line with the coronavirus guidelines and restrictions, which had already become established practices. The coronavirus situation was monitored on a weekly basis, ensuring the ability to respond to any changes. In mid- December, five (5) cases of infection were reported at the Vantaa office, as a result the entire office was transferred to working remotely and the exposed people were tested. No other infections were reported in association with these cases.

Enhancing occupational safety a priority

The accident rate is one of Lehto Group's key indicators for responsibility and the most important indicator for HR issues, social responsibility and human rights. Lehto Group prioritised occupational safety as a special focal area in 2017 and has continued efforts to improve safety.

Lehto has three employees who work full time on maintaining and developing occupational safety. The Group's objective is that every day is an accident-free day, and construction sites and factories are orderly and safe. In 2020, the accident rate for the Group as a whole was 23 (LTI1 index) (2019:29). Since 2018, the accident rate has been measured using the LTI1 index (accidents leading to absence from work of more than one day per million hours worked) and this indicator is reported in connection with annual reporting.

Our policy is that all employees in production-related work must have a valid Occupational Safety Card. In addition, the Group arranges training on occupational safety and first aid. Through preventive measures and training, Lehto Group seeks to prevent accidents at work and influence employees' attitudes.

In 2020 Lehto Group Plc organised one-day Safety Park Trainings covering the entire production, Business Premises and Housing organisations. The training focused on illustrating and discussing accident situations in a real environment. In addition, safety issues have been added to site production training programmes.

Lehto actively raises employees' awareness of occupational safety issues with its annual clock for safety at work. The annual plan has a monthly theme suited to each season, and the associated materials will be distributed in both online channels and on-site breakrooms. A report on the previous month's accidents will also be given in conjunction with the monthly theme. Safety briefings form part of our on-site safety activities. These meetings go through accidents and near-miss situations, and cleanliness and tidiness are also discussed. Whenever a new construction site opens, we hold a safety start-up meeting and conduct follow-up visits throughout the project.

As part of Lehto's safety principles, all personnel are informed of major accidents and the safety guidelines relating to the accident in question are also updated for use on site. A report on each accident/dangerous situation is written within three days of the incident and all of these cases are reviewed with the persons involved. The company seeks to identify the root causes of all accidents and dangerous situations and to determine corrective measures to avoid such incidents going forward.

Personnel wellbeing and competence development

Lehto Group's HR and training plan is based on the company's growth strategy. It serves as the basis for HR planning and also creates guidelines for employee competence maintenance and development. Lehto Group actively develops the expertise of personnel and encourages self-development.

At the beginning of the year, the Group introduced a competence review of salaried employees as part of the HR system. This review can be used to identify the most important competence areas to support internal personnel training as well as the areas in which there are competence development needs.

A new four-stage orientation and training system (Lehto 0-1-2-3) was also introduced in the spring to support supervisors and HR. Orientation was systematised as a comprehensive process of about six months.

The revitalisation programme during the first half of the year produced internal training materials, an operating manual linked to business processes and further development needs. The materials and operating manual created during the summer were integrated into the overhauled orientation and training system. The aim is to ensure that training provides more appropriate and effective support to business operations as operating models evolve. Lehto currently has three larger-scale management training programmes (Management Academy 1A (managerial work), 1 B (early support) and 2 (middle management leadership)), design management and site management (formerly known as Production Academy).

Career Promise is a trainee programme that seeks to secure the number of personnel required by our growth strategy with the aid of students in the sector. The Group is committed to employing 3–5 per cent of our payroll as students from different fields of study and offering them trainee and summer jobs during their studies, as well as providing them with topics for their theses or diplomas whenever possible. Lehto offered jobs to 37 students in 2020.

Lehto carried out a personnel survey at the turn of August and September. The survey was a continuation of the survey commissioned from the same provider at the end of 2018. Analyses of the results must take into account the changes in the business environment, the impacts of the coronavirus spring on general wellbeing and the length of time between measurements. Taking these factors into account, the results indicate that personnel feel that their job motivation, work management and working conditions are good. Based on the results, the level of managerial work was felt slightly improved. The results indicate that the greatest development needs concern internal communications as well as the management and operating culture. The large personnel reductions in autumn 2019 and spring 2020 as well as the 2020 layoffs due to the coronavirus must have unavoidably affected these results.

According to Lehto Group's updated strategy, the objective is to ensure that personnel enjoy smooth workdays, thereby providing a good workplace experience. In 2020, total employee turnover was 20% (2019: 26%).

The action plan includes preventive occupational health care services and medical care at a general practitioner level beyond the statutory requirements, with an emphasis on occupational health. Sickness absences in 2020 totalled 3.3% (2019: 3.3%).

The objective of Lehto Group's occupational healthcare action plan is

1. to ensure a safe and healthy working environment
2. to prevent occupational health hazards and harmful health effects
3. to maintain the working and functional capacity of employees
4. to promote health

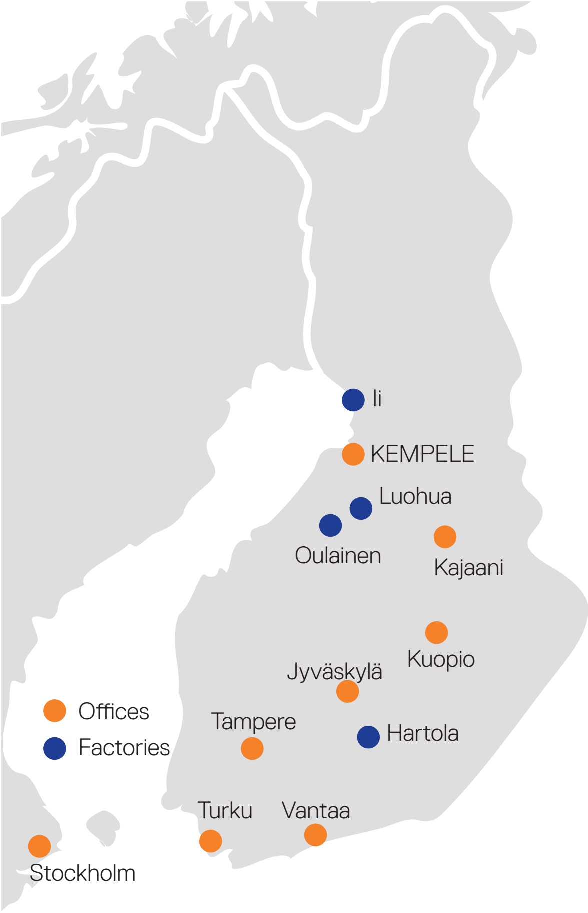
Human resources management and identified risks

HR management is a Group-level function that supports, steers and serves our business units with named HR business partners. HR matters are regularly discussed by the Group management team and in business unit steering groups. Lehto Group's HR management is responsible for ensuring that employment legislation, HR policies, local agreements and operating models, and the fair and equal treatment of employees are implemented and complied with in every Group business unit.

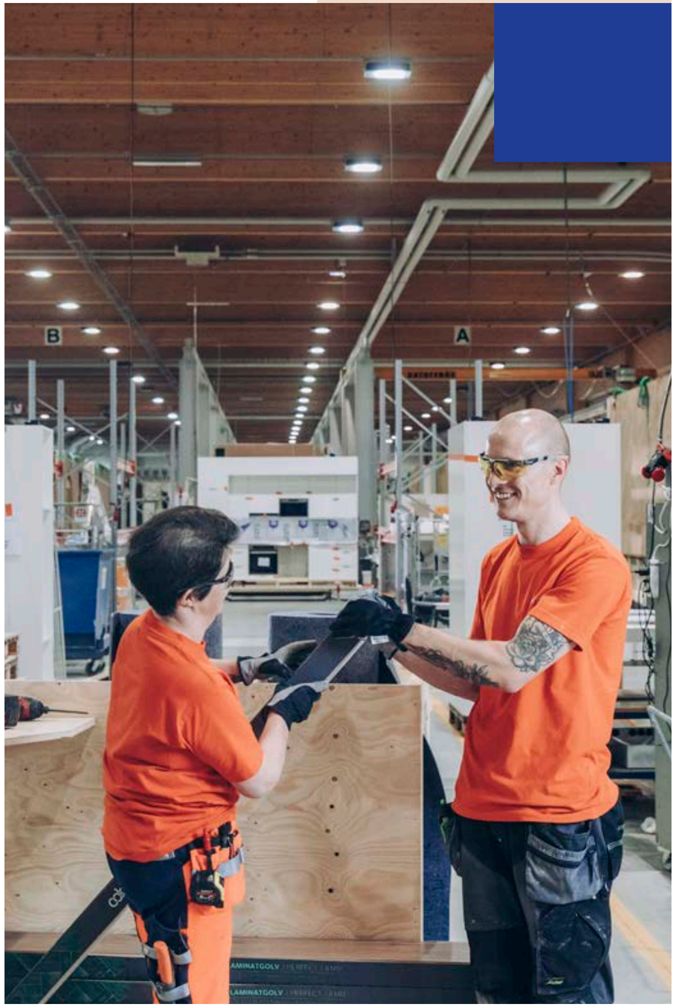
Lehto Group's HR and training plan and equality and non-discrimination plan are both updated on an annual basis, and they form part of our operational planning. Equality and non-discrimination are monitored through gender, age and regional distributions. In 2020, women accounted for 14.5% of personnel (2019: 15%), 0% of the management team (2019: 0%) and 40% of the Board (2019: 20%). The age distribution of personnel is presented in the table below:

Lehto considers it important to employ people all around Finland, not just in growth centres. The geographical distribution of Lehto's business locations in 2020 is shown in the diagram below.

Under 30 years of age	23%
30–39 years	33%
40–49 years	20%
Over 50 years	24%



The following potential responsibility risks relating to personnel, social responsibility and human rights have been identified: accidents, burnout, discrimination, harassment, and the neglect of terms and conditions of employment. These risks are managed with, for instance, a wide range of supervisor and occupational safety training, appropriate HR policies, agreements, operating models, and an action plan for occupational healthcare.



Responsibility of business practices

Lehto Group is committed to complying with legislation and regulations, and to otherwise conduct our business in an ethical and responsible manner that respects and promotes human rights. We train all personnel using a common induction programme to combat corruption and other illegal practices. Some personnel also attend more extensive task-specific training courses. For example, procurement meetings regularly cover how to fight corruption and other unethical operating models in the subcontractor chain.

We train all personnel using a common induction programme to combat corruption and other illegal practices.

The scope of our training on ethical guidelines and the scope of the ethical guidelines in procurement agreements are two of the key indicators of responsibility that we defined in 2018. Our ethical guidelines training package – Fair Play Rules – was announced in early 2019, when it was made part of our induction training for all new employees. 896 people (around 87 per cent of all personnel) completed this training during the year.
Lehto reviewed its whistleblowing channel in 2020 – it meets the requirements of EU directives in its current form. Lehto ascertained that this channel complies with current regulations and thus did not take other steps with respect to it.

Lehto also has a public Code of Conduct for our partners, which you can read here. We have appended the Code of Conduct to all new procurement contracts signed in 2019. The guidelines take into account requirements concerning issues such as corruption, employee wellbeing, and respecting property and the environment. Cooperation partners must inform Lehto's contact person immediately if they notice or suspect activities that are illegal or contravene Code of Conduct or ethical principles. Cooperation partners can also contact Lehto anonymously. The notification is forwarded to the Group's Legal Counsel and the Chair of the Audit Committee of the Board of Directors.

Lehto Group complies with the measures adopted in the construction industry to combat the grey economy. All Lehto Group contracts require the use of construction site tax numbers and personal IDs. In addition, all Lehto employees and those working on site must wear a photo ID, such as a Valtti card, and keep it visible at all times. In 2019, Lehto linked the use of the Valtti card to salary payment, thereby further increasing transparency on construction sites.

Lehto Group complies with the measures adopted in the construction industry to combat the grey economy.

Lehto Group carefully follows compliance processes in order to prevent the occurrence of abuse generally acknowledged as a problem in the construction industry. We are continually enhancing and developing our processes with the aim of improving management's, employees' and our partners' understanding of the importance of this issue.

Lehto personnel can report violations of the guidelines and any suspected abuse by discussing the matter with their supervisor or closest supervisor, or via the reporting (reporting or whistleblowing channel) channel. The Group's Legal Counsel, in collaboration with the Group's CEO, is responsible for initiating investigations into any reported cases. In 2020, three suspected cases were investigated, two of which led to further action. Our goal is to improve general awareness of the existence of our reporting (or whistleblowing channel) channel through communications and by including the topic in a variety of training programmes.

Lehto Group's risk management policy is described on the company's website (https://lehto.fi/en/investors/corporate-governance/risk-management/).

Lehto Group´s Fair Play Rules

Lehto Group´s risk management policy

Key indicators of responsibility

PRIORITIES	OBJECTIVE	INDICATORS	2018	2019	2020
Responsible construction	70%	Waste recycling rate*	20%	26,8%	20.7%
	Growth	Share of electricity accounted for by renewable energy **	-	75,6%	75.2%
Personnel wellbeing	LTI1 < 15	Lost time accident frequency***	43	29	23
Responsibility of business practices	All personnel trained	Ethical guidelines, scope of training	Guidelines drafted	trained 52% of personnel	trained 87% of personnel
	100% new agreements 100% framework and annual agreements made before 2019	Scope of ethical guidelines in procurement contracts	Guidelines drafted	100% new agreements 63% existing agreements	100% new agreements 89% existing agreements

*Covers about 85% of waste; the information is based on figures received from the service provider

**Covers over 90% of purchased electricity; the information is based on figures received from the service provider and calculations based on these figures

***LTI1 = accidents leading to absence from work of more than one day per million hours worked

Developing responsibility

Lehto updated its strategy in 2020. During the next three-year strategy period from 2021 to 2023, Lehto's special focus areas are design and productisation, factory production and productive sites, sustainable construction, active sales, conceptualised products and services, harnessing digitalisation, development of the customer experience and development of the personnel working atmosphere. The cornerstones of the strategy are still design management, standardisation, industrial production as well as digital processes and service chain.

Sustainable construction emphasises wood construction in particular and the company aims to increase the share of operations accounted for by wood in housing construction. Lehto seeks to gradually transition to the carbon-neutral circular economy.

Occupational safety will continue to be an integral part of our social responsibility. Our aim is to further reduce accidents at work and improve the safety level in all of our operations.

Lehto's Carbon Neutral housing construction 2030 project is still progressing in stages as planned. The long-term objective is to significantly reduce the carbon load caused by construction and make carbon-neutral construction a profitable business. In 2020, progress was made in the project with measures such as stakeholder interviews and the development of concept description.

Responsible actions in everyday life

Textile processing plant in Paimio

Lehto is building the first textile processing plant in the Nordic countries. Located in Paimio, it will go into operation in 2021 and will solve the global environmental problem posed by end-of-life textiles for both companies and consumer textiles. Starting next year, the Paimio plant will convert textile wastes into recycled fibre, particularly for industrial needs. The new plant will be capable of processing 12,000 tonnes of end-of-life textiles – about 10 per cent of Finnish textile waste – into recycled fibre. The design of the premises has taken sustainability into consideration in accordance with the business operations of the tenants, and has sought to ensure that space usage is as efficient and flexible as possible for textile fibre processing.

Lehto is a pioneer in responsibility issues in the construction industry

"Responsibility has assumed an ever-greater role in property investment during the past ten years – but at an unreasonably slow pace, considering how important this issue is. We property investors are currently strongly encouraging construction companies to engage in more responsible construction – and end customers, that is, those renting offices and housing, have started to pay greater attention to this as well.

Responsibility is a broad concept, but the construction industry has its eyes especially on environmental issues and sustainable construction. So far, construction has primarily sought to improve energy efficiency during use, but the focus should definitely be shifted to carbon dioxide emissions generated during construction. One obvious solution to this issue is to use wood as a construction material, but I'm certain that in the future there will be growing demands to utilise other aspects of the circular economy, such as recycling.

Lehto has done excellent work in the development of the construction of wooden apartment buildings. Lehto's way of using prefabricated kitchen and bathroom modules increases opportunities to optimise production, which in turn speeds up construction and minimises material waste.

Lehto is an important partner to us. This year, we have announced joint projects to build wooden apartment buildings. Lehto's product is good and supports the objectives of responsibility in many ways – for instance, I myself appreciate Lehto's efforts to enable people to live in affordably priced housing. Our cooperation also has an ideological basis, as we seek to actively develop the construction of wooden apartment buildings in Finland.

I think that Lehto is large enough and has both the will and ability to remain at the forefront of responsible construction. Excellent progress is currently being made in this direction, but the construction industry is under heavy pressure. In order to maintain a good position, the company must be able to keep accelerating its efforts."

Jani Nokkanen, Chief Investment Officer and Partner, NREP

Responsible actions in everyday life

Helena Säteri: Responsibility is an important competitive advantage

"At today's companies, responsibility is evident in, for example, personnel wellbeing, taking environmental issues into consideration and financially sustainable business. We're on the right path when responsibility is assessed on the basis of the company's code of values, and not just euros.

In my opinion, responsibility is now a major competitive edge for companies in the construction industry as well. Young people are particularly interested in sustainable development, and corporate responsibility increasingly guides their consumption and investment decisions.

Lehto's operations include several elements that support sustainable construction. For instance, advanced industrial prefabrication in dry indoor premises ensures consistent quality and excellent moisture control, and also provides substantial time and cost benefits, as the construction site phase is shorter than usual. Factory production is also favourable to the environment, as it reduces material waste and construction site traffic.

Lehto has also successfully conceptualised factory production as part of the construction of wooden apartment buildings. Wood construction is an emerging trend in the industry. I think that Lehto is extremely well prepared for the growing demand for wooden apartment buildings.

The construction industry is in transition due to factors such as tighter environmental and energy targets, and companies have to come up with more sustainable ways of working. It's interesting to follow the development of the industry. I believe that Lehto has all that it takes to lead the way in responsibility, too."

Helena Säteri, member of the Board of Directors, Lehto Group

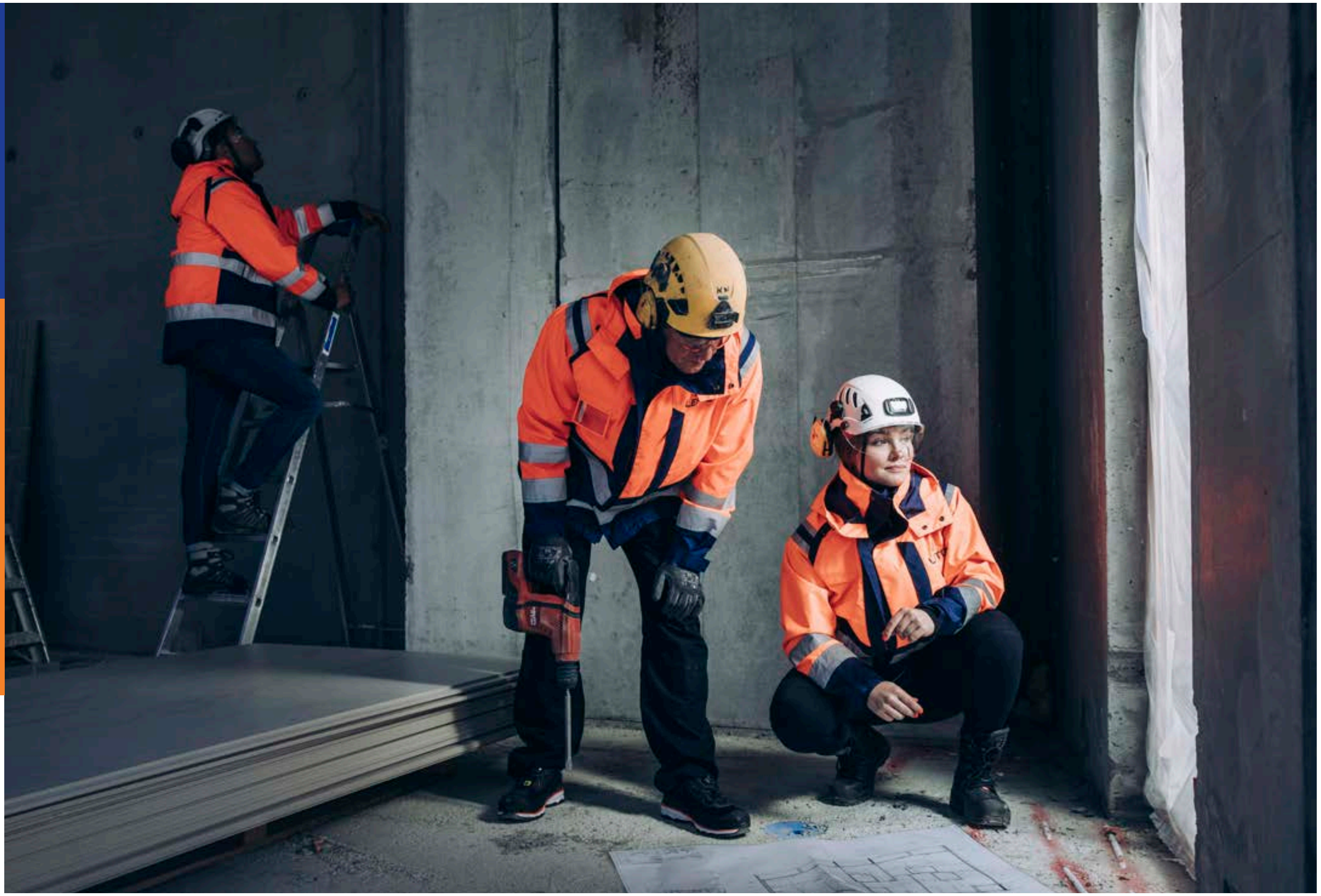
Helena Säteri has been employed in construction for 40 years and has more than 15 years of experience on the Boards of Directors of various companies and more than 10 years of experience in ownership steering by the State. Her most recent appointment was as Director-General at the Ministry of the Environment from 2008 to 2020.

Wooden building construction: Tampereen Tuohi

One of Lehto's first wooden apartment building projects has been erected in Härmälä, Tampere. Called Tampereen Tuohi, it is a four-storey wooden apartment building with 36 apartments: 24 of them are one-room and 12 two-room flats. Tampereen Tuohi was completed on schedule, about six months after factory production was started up. The length of the construction site phase was about half of that of an ordinary apartment building thanks to Lehto's use of prefabricated space elements. Our modern factory production and installation method ensure both a moisture-controlled construction chain and the quality benefits of factory production.

Lehto's wooden apartment buildings are designed to withstand the variable and sometimes harsh weather conditions of Finland. Wooden façades withstand subzero temperatures, heatwaves and rain for at least a decade without maintenance. Tampereen Tuohi's cladding features a harmonious palette of red and white. The locking system of Tampereen Tuohi is also in line with residential trends. It is an entirely keyless apartment building, with a smart locking system. This system enables keyless living and mobility in the entire apartment building property, as the lower doors, public areas and apartment doors are all fitted with smart locks.

Report by the Board of Directors



Lehto Group Plc

Summary 2020

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

[1)] The figures for 2019 have been adjusted for the share issue carried out in December 2020.

2020 in brief:

- Operations focused on implementing the company's revitalisation programme as well as stabilising processes and operating methods.

- Net sales were down 18.4% on the previous year and amounted to EUR 544.7 (667.7) million. Net sales decreased in both the Housing and Business Premises service areas. The main reasons behind the decline in net sales are the waning care home market, the delayed start-ups of new projects due to the coronavirus pandemic, and the company's shift of focus in 2019 to projects aligned with its strategy.

- The operating result improved significantly year-on-year and amounted to EUR -2.9 (-41.8) million. The improvement in the operating result can be primarily attributed to the discontinuation or reorganisation of loss-making business functions. The result was burdened especially by school projects with weak margins and losses in operations in Sweden.

- An oversubscribed rights issue was carried out in November-December. The net proceeds of EUR 19.3 million received from the offering increased both equity and cash and cash equivalents.

- Solvency developed and indebtedness decreased significantly. Equity ratio (without the lease liabilities under IFRS 16) rose to 43.2% (33.8%) and the net gearing ratio declined to -19.9% (74.1%).

- Cash flow from operating activities was EUR 73.6 million positive. Net cash flow was EUR 45.8 million and cash and cash equivalents amounted to EUR 105.1 (59.2) million at the end of the review period.

- The order backlog decreased to EUR 426.3 (481.8) million as company focused on projects with good strategic fit and fewer developer contracted housing projects were started up.

- The Board of Directors proposes that no dividend be paid for the financial year.

NET SALES BY SERVICE AREA, EUR MILLION

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

NET SALES AND OPERATING PROFIT BY QUARTER, EUR MILLION

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

Business environment and business development in 2020

DEVELOPMENT OF THE MARKET ENVIRONMENT

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

The Confederation of Finnish Construction Industries RT estimates that housing construction in 2020 slowed down significantly less than was expected in the spring. That said, start-ups in housing production decreased from the 2019 figure of around 38,100 units to about 35,000 units in 2020. Housing production is expected to decline further in 2021 by more than 10%. As financing tightens, new construction is focused even more heavily on the largest urban areas and lower-risk projects.

In its outlook report published in September 2020, the construction trends group of the Ministry of Finance (RAKSU) estimates that the coronavirus pandemic has had less of an impact on construction than expected. Construction output in 2020 is estimated to have remained close to the previous year's level, as the output grew during the first half of the year in spite of the weak outlook. The RAKSU working group also estimates that construction will decrease further in 2021 as the uncertain economic cycle and higher-than-normal production volumes return closer to the long-term levels in both housing and public-sector construction. The group expects that output will decline by three to five per cent in 2021. RAKSU forecasts that housing start-ups will amount to 33,000–34,000 in 2020 and that this number will decline further in 2021 to 30,000 units.

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

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

HOUSING

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

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

The Housing service area is divided into developer-contracted production and contracting projects. In Lehto's developer-contracted housing projects, the company designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. These customers include private persons as well as private and institutional investors. In its care home business, Lehto designs and builds care homes and assisted living units for both care operators and municipalities. Most of Lehto's current housing projects are concrete apartment buildings and are built using the kitchen/bathroom modules developed and manufactured by Lehto. These modules include the main electricity, water, heat, ventilation and sewerage solutions for the apartment and building. The modules are completely prefabricated at Lehto's own factories and transported to the construction site, where they are lowered into the building through the roof and connected to each other. This patented building method speeds up construction, improves quality and produces cost savings.

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

In its care home business, Lehto designs and builds care homes and assisted living units for both care operators and municipalities. These construction projects are implemented either under ordinary construction contracts or as investment transactions, where Lehto signs a lease agreement with the service operator and sells the completed property to a party that invests in properties in the sector. The majority of care homes are 1–2-storey concrete or wooden buildings. Going forward, care homes and assisted living units will expand Lehto's offering in larger project packages in city centres and suburban areas

Business development in 2020

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

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

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

SOLD HOUSING UNITS DURING THE REVIEW PERIOD

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

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

HOUSING UNITS UNDER CONSTRUCTION

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

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

UNSOLD HOUSING UNITS

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

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

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

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

Pipeline renovations

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

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

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

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

Care home construction

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

BUSINESS PREMISES

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

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

Business Premises conducts most of its operations using a 'design and implement' model in which Lehto is responsible for both the design and actual construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and then designs and builds the property either wholly or partly at its own risk.

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

Business development in 2020

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

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

New contract agreements valued at EUR 153.3 million were signed during the period and the order backlog decreased to EUR 194.2 million (EUR 210.9 million on 31 December 2019). Lehto has developed the Hippos2020 project with the City of Jyväskylä. Uncertainties related to the project have increased due to the coronavirus pandemic, but Lehto and the City of Jyväskylä are still developing the project.

Complete renovation operations

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

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

School business

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

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

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

SWEDISH OPERATIONS

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

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

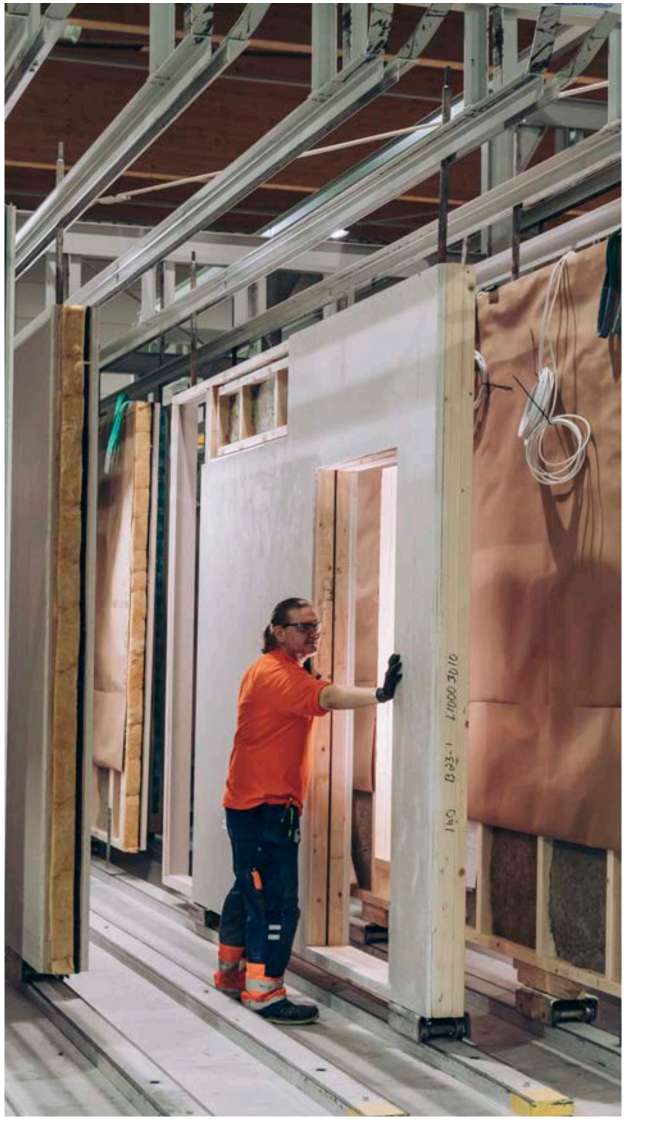
FACTORY PRODUCTION

The use of prefabricated products lies at the core of Lehto's business. Lehto manufactures a variety of building modules and elements at its own production facilities, primarily for its own use. In 2020, it also sold small quantities of these products outside the Group.

The major share of the factory production comprises kitchen-bathroom modules for concrete-frame apartment buildings, space elements for wooden apartment buildings and large roof elements for large business premises. In addition, Lehto manufactures external wall elements, aluminium doors, windows as well as kitchen and other fixtures at its factories.

In 2020, its factories made a total of 230 room elements, about 1,300 kitchen-bathroom modules, around 60,000 m² of roof elements and approximately 26,000 m² of external wall elements. Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.

Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii, totalling about 50,000 m². At the end of the review period, 236 people worked in factory operations (285 on 31 December 2019). During the review period, Lehto decided to combine and boost the efficiency of factory operations by transferring the manufacturing line for large roof elements from Humppila to Hartola, where the company has a large factory unit measuring 20,000 m^2.



Balance sheet and financial position

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

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

Equity and liabilities

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

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

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

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

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

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

Assets

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

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

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

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

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

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

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

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

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

New financing agreement on 30 June 2020

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

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

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

Rights issue

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

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

VAT payment arrangement with the Tax Administration

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

Personnel

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

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

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

The company has a long-term share-based incentive plan in place. The aim of the plan is to combine the objectives of the shareholders and the key employees in order to increase the value of the company in the long term and to commit key employees to the company. The plan is directed at a maximum of 70 key employees and the rewards are paid after a restriction period of two years, partly in the company's shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the reward.

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

On 29 April 2020, Lehto announced that the Board of Directors will, at its own initiative, reduce its remuneration by 20 per cent from the amounts decided on by the AGM for a five-month period. The reduction in remuneration concerned both the cash and share components. By reducing its remuneration, the Board of Directors supported the profitability of the company and participated in the same savings actions as the company's management and operative personnel. In addition, the CEO of Lehto Group Plc, the members of the Executive Board and the members of the management teams of the service areas committed to lowering their earnings by 20 per cent for a five-month period. A substantial share of Lehto's salaried employees were either partly or entirely laid off in May-September.

Research and development

Lehto develops and manufactures building modules and components, such as bathroom/kitchen modules, housing space elements, wall elements, large roof elements, technical building modules, windows and some smaller pipeline renovation modules at its own production facilities. The purpose of developing modules is to enhance building quality and to accelerate the construction process.

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

Risks and uncertainty factors

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

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

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

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These business models involve different risks. In traditional contracting, project income is recognised according to the degree of completion. The main risk in this model is that total costs for the project exceed the estimated costs or the completion of the project is delayed.

The main risk in own production is that the company is not able to sell the production within the planned time schedule or at the planned price. In addition, project costs can exceed the estimated costs. Failure in project pricing, technical implementation, estimating costs and time schedule, selling the property or finding financing can have a negative impact on the company's result and financial position.

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

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

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

Changing building regulations or zoning policies can also have significant effects on the company's business. In a period of economic growth in construction, the availability of skilled labour may also present a risk for the planned launch of a project in the agreed schedule.

Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them. More information on Lehto's risks and risk management is available at www.lehto.fi.

Key risks during 2021

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

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

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

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

As employees work closely together on Lehto's construction sites, coronavirus cases may arise in spite of the preventive measures in place, and this could also slow down progress. Coronavirus cases among subcontractors and goods suppliers could also cause delays to projects. Construction sites may have to be closed down and work put on hold. As a result, the degree of completion of projects might be lower than expected, delaying the accrual of net sales and operating result.

Responsibility and environmental issues

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

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

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

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

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

The Group's legal structure

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

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

Shares and shareholdings

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

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

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

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

The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. Among other things, the authorisation can be used to develop capital structure, to expand the ownership base, to implement incentive systems, and as a consideration in transactions when the company purchases assets linked to its operations. An authorisation to acquire 5,320,000 shares is valid until 30 June 2021, and an authorisation for 480,000 shares is valid until 30 June 2023. Both authorisations replace any previous authorisations issued by the company relating to share issues and options.

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

Repurchase and transfer of own shares

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

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

On 4 May 2020, the company conveyed a total of 56,893 of its own shares to members of the Board of Directors in accordance with the decision taken by the Annual General Meeting and the voluntary reduction of Board remuneration announced on 29 April 2020.

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

Decisions by the Annual General Meeting

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

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

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

The handling of the Remuneration Policy for governing bodies

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

Election and remuneration of the Board of Directors

The Annual General Meeting resolved that the Board of Directors shall consist of five members. Pursuant to the proposal made by the shareholders nomination committee Mikko Räsänen, Anne Korkiakoski and Seppo Laine were re-elected and Helena Säteri and Raimo Lehtiö were elected as members of the Board of directors. The term of the Board members will expire at the end of the Annual General Meeting 2021.

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

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

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

Election and remuneration of the auditor

The audit firm KPMG Oy Ab was re-elected as the auditor. KPMG Oy Ab has informed the company that C.A. Pekka Alatalo would act as the responsible auditor. The auditor's fee shall be paid on the basis of an invoice approved by the company.

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

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

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

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

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

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

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

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

Decisions of the Extraordinary General Meeting

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

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

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

Other significant events during the review period

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

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

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

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

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

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

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

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

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

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

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

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

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

30 June 2020: Lehto announced that it had signed a new revolving credit facility agreement and was planning to organise a rights issue of EUR 20-25 million by the end of 2020.

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

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

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

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

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

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

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

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

Events after the review period

No such events have occurred after the end of the reporting period that would have a significant or exceptional effect on the company's result, financial position or business development.

Outlook for 2021

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

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

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

Board proposal for the use of the profit shown on the balance sheet and for deciding on payment of dividends

The parent company's distributable equity on the balance sheet of 31 December 2020 amounts to EUR 86,564,458.70, of which the profit for the financial year is EUR -1,964,562.84.

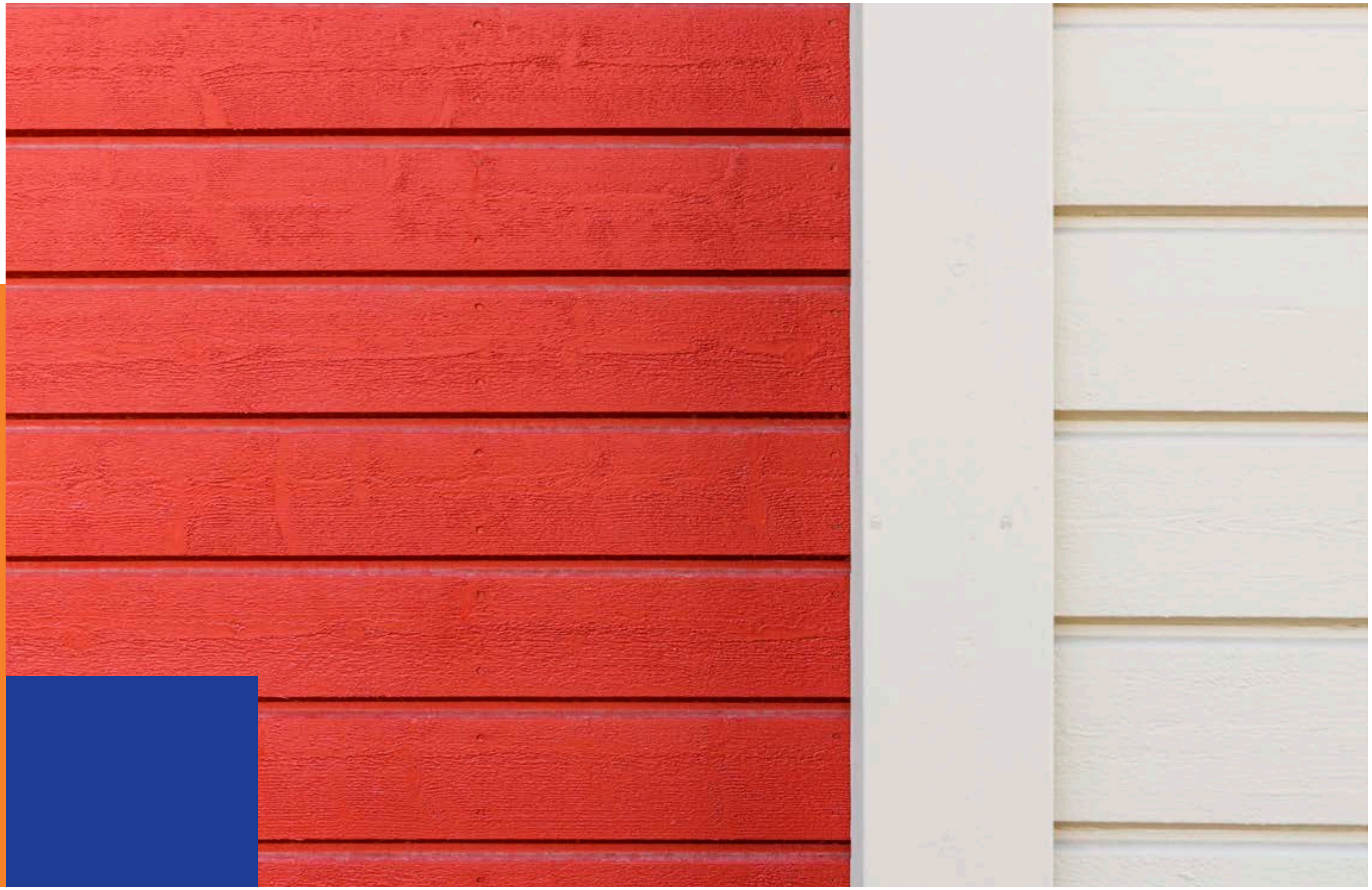
The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the 1 January–31 December 2020 financial year.

Vantaa, 17 February 2021

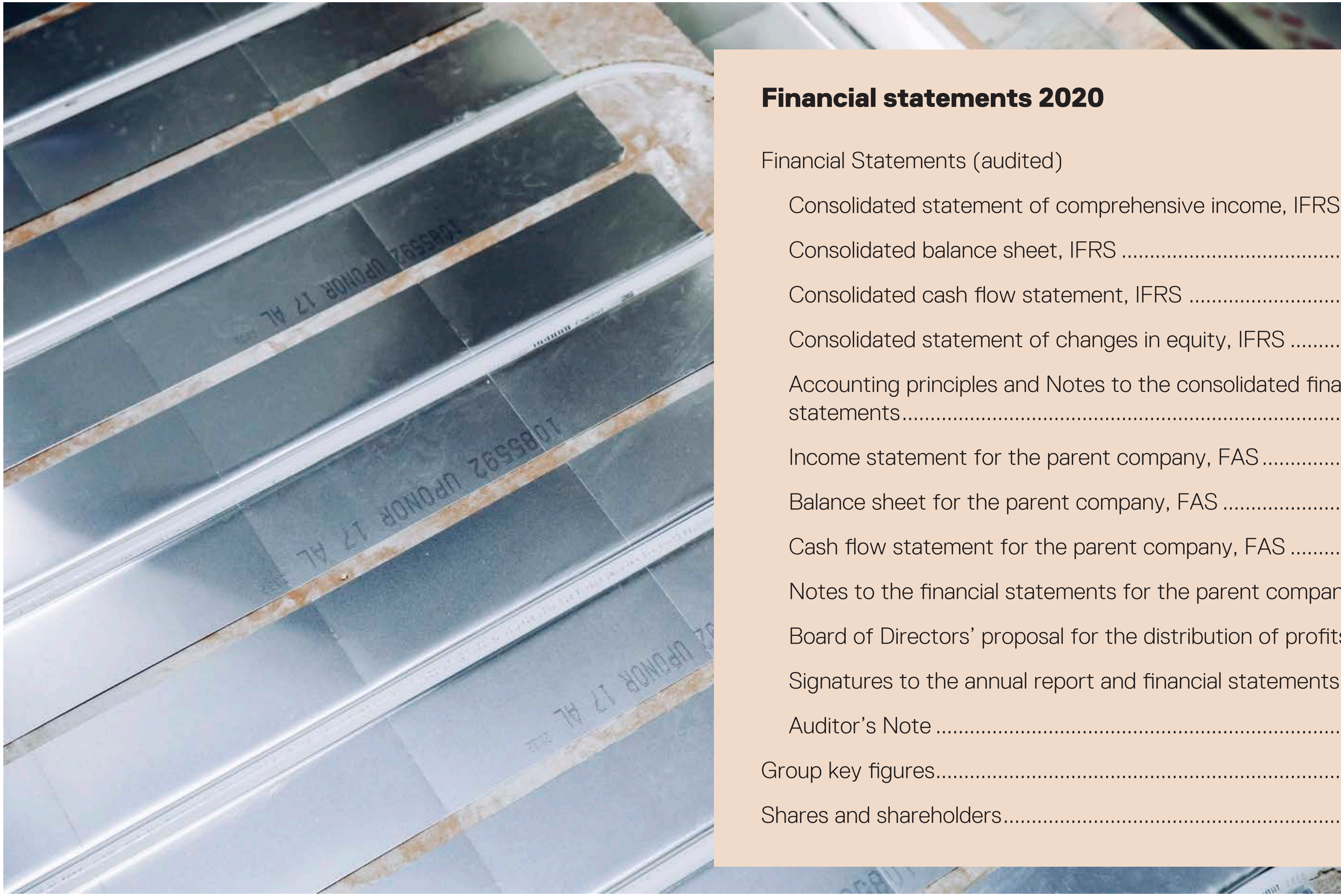
Lehto Group Plc

Board of Directors

Financial Statements



Lehto Group Plc



Financial statements 2020

Consolidated statement of Comprehensive Income, IFRS

	Note	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Net sales	2	544 651	667 701
Other operating income	3	970	1 500
Changes in inventories of finished goods and work in progress		-98 717	-35 745
Capitalised production		0	46
Material and services		-358 973	-560 584
Employee benefit expenses	4	-63 705	-82 214
Depreciation and amortisation	5	-7 626	-8 203
Other operating expenses	6	-19 468	-24 337
Operating result		**-2 866**	**-41 836**
Financial income	7	346	262
Financial expenses	7	-4 327	-3 973
Result before taxes		**-6 848**	**-45 547**
Income taxes	8, 16	-1 348	9 797
Result for the financial year		**-8 196**	**-35 750**

	Note	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Result attributable to			
Equity holders of the parent company		-8 196	-35 750
Non-controlling interest		1	1
		-8 196	-35 750
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	22	78	-146
		78	**-146**
Comprehensive result attributable to			
Equity holders of the parent company		-8 119	-35 897
Non-controlling interest		1	1
		-8 118	-35 896
Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share	9		
Issue-adjusted average number of outstanding shares during the period, basic		71 012 014	70 597 352
Earnings per share, basic, EUR/share		-0,12	-0,51
Issue-adjusted average number of outstanding shares during the period, diluted		71 330 955	70 752 453
Earnings per share, diluted, EUR/share		-0,11	-0,51

Consolidated Balance Sheet, IFRS

ASSETS	Note	31 Dec 2020	31 Dec 2019
Non-current assets			
Goodwill	10	4 624	4 624
Other intangible assets	11	4 547	4 697
Property, plant and equipment	12	22 672	26 577
Investment properties	13	711	730
Other financial assets	15	771	775
Receivables	16	14 640	1 915
Deferred tax assets	17	15 401	16 473
Non-current assets total		**63 365**	**55 790**
Current assets			
Inventories	18	135 688	250 441
Trade and other receivables	19	79 691	86 307
Current tax assets	19	0	0
Financial assets at fair value through profit or loss	20	314	313
Cash and cash equivalents	21	104 741	58 911
Current assets total		**320 434**	**395 972**
TOTAL ASSETS		**383 799**	**451 762**

EQUITY AND LIABILITIES	Note	31 Dec 2020	31 Dec 2019
Equity			
Share capital		100	100
Invested non-restricted equity reserve		88 695	69 155
Translation difference		-241	-319
Retained earnings		35 076	43 184
Capital attributable to equity holders of the parent company		**123 629**	**112 120**
Non-controlling interest		7	6
Equity, total	22	**123 636**	**112 126**
Non-current liabilities			
Deferred tax liabilities	17	337	552
Provisions	23	12 522	9 384
Financial liabilities	24	9 976	5 928
Lease liabilities	24	31 509	44 658
Other non-current liabilities	25	115	122
Non-current liabilities, total		**54 458**	**60 645**
Current liabilities			
Advances received	25	64 397	73 220
Trade and other payables	25	69 069	67 110
Current income tax liabilities	25	50	83
Financial liabilities	24	70 402	136 431
Lease liabilities	24	1 787	2 147
Current liabilities, total		**205 705**	**278 992**
Liabilities, total		**260 163**	**339 636**
TOTAL EQUITY AND LIABILITIES		**383 799**	**451 762**

Consolidated Cash Flow Statement, IFRS

	Note	31 Dec 2020	31 Dec 2019
Cash flow from operating activities			
Result for the financial year		-8 196	-35 750
Adjustments:			
Non-cash items		3 721	3 247
Depreciation and amortisation		7 626	8 203
Share of associated company profits (losses)			
Financial income and expenses		3 981	3 711
Capital gains		-6	-843
Income taxes		1 348	-9 797
Changes in working capital:			
Change in trade and other receivables		-6 354	48 912
Change in inventories		103 962	27 893
Change in trade and other payables		-26 475	-53 578
Interest paid and other financial expenses		-6 237	-3 338
Financial income received		343	262
Income taxes paid		-138	-19
Net cash from operating activities		**73 574**	**-11 098**

	Note	31 Dec 2020	31 Dec 2019
Cash flow from investments			
Investments in property, plant and equipment		-544	-4 051
Investments in intangible assets		-1 440	-3 601
Sales of associated companies			1 638
Proceeds from sale of property, plant and equipment and intangible assets		6	63
Financial assets at fair value through profit or loss		7	-577
Repayments of loan receivables		775	
Loans granted		-530	-36
Dividends received		0	0
Net cash from investments		**-1 725**	**-6 563**
Cash flow from financing			
Loans drawn	24	39 931	132 644
Loans repaid	24	-82 258	-90 109
Lease liabilities paid	24	-2 540	-4 719
Acquisition of non-controlling interest			-280
Dividends paid		-7	-13 995
Paid share issue		20 321	
Costs related to paid share issue		-977	
Costs related to repurchasing own shares		-504	
Net cash used in financing activities		**-26 035**	**23 541**
Change in cash and cash equivalents (+/-)		**45 814**	**5 880**
Effects of exchange rate change		17	-37
Cash and cash equivalents at the beginning of the financial year		59 224	53 381
Cash and cash equivalents at the end of the financial year	20, 21	**105 054**	**59 224**

EUR 1,000

Consolidated statement of Changes in Equity, IFRS

	CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
	Share capital	Invested non-restricted equity reserve	Translation difference	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity on 1 January 2019	**100**	**69 155**	**-173**	**92 984**	**162 066**	**264**	**162 330**
Comprehensive income							
Result for the financial period				-35 750	**-35 750**	1	**-35 750**
Other comprehensive income items							
Translation difference			-146		**-146**		**-146**
Total comprehensive income			*-146*	*-35 750*	***-35 897***	*1*	***-35 896***
Transactions with equity holders							
Distribution of dividends				-13 995	**-13 995**		**-13 995**
Share-based compensation				-55	**-55**		**-55**
Transactions with equity holders, total				*-14 050*	***-14 050***		***-14 050***
Changes in holdings in subsidiaries							
Acquisitions of non-controlling interest not resulting change in control						-259	-259
Changes in holdings in subsidiaries, total						*-259*	*-259*
Equity on 31 December 2019	**100**	**69 155**	**-319**	**43 184**	**112 120**	**6**	**112 126**
Equity on 1 January 2020	**100**	**69 155**	**-319**	**43 184**	**112 120**	**6**	**112 126**
Comprehensive income							
Result for the financial period				-8 196	**-8 196**	1	**-8 196**
Other comprehensive income items							
Translation difference			78		**78**		**78**
Total comprehensive income			*78*	*-8 196*	***-8 119***	*1*	***-8 118***
Transactions with equity holders							
Distribution of dividends				-7	**-7**		**-7**
Share issue		20 321			**20 321**		**20 321**
Direct expenses related to share issue deducted from the tax effect		-782			**-782**		**-782**
Share-based compensation				600	**600**		**600**
Other changes				-504	**-504**		**-504**
Transactions with equity holders, total		*19 539*		*88*	***19 628***		***19 628***
Equity on 31 December 2020	**100**	**88 695**	**-241**	**35 076**	**123 629**	**7**	**123 636**

Accounting principles for the consolidated Financial Statements

Group basic information

Lehto Group is a construction and real estate group. The parent company is Lehto Group Plc and its business operations are organised for its subsidiaries. The parent company is domiciled in Kempele. The registered address is Voimatie 6 B, 90440 Kempele, Finland.

Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland. Lehto Group Plc's Board of Directors approved the financial statements on 17 February 2021. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2020. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation, complementing the IFRS regulations.

The consolidated financial statements are prepared on historical cost basis except for financial assets at fair value through profit or loss. The financial information is presented in thousands of euro.

Principles of consolidation

The consolidated financial statements include the parent company Lehto Group Plc and all subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or in which the Group otherwise has control. The criteria for control are fulfilled when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries acquired are consolidated from the date when the Group obtains control. Mutual holdings are eliminated using the acquisition method. All intra-Group transactions and internal profits, receivables and liabilities are eliminated in the consolidated financial statements. The number of shareholders' equity attributable to non-controlling shareholders is shown as a separate item under shareholders' equity.

Property, plant and equipment

Property, plant and equipment are measured at the original acquisition price less accumulated depreciation and impairments. They are depreciated during their estimated useful lives. The Group's property, plant and equipment include machinery and equipment, factory property in own use as well as other tangible assets, which mainly consist of capitalised renovation expenses for rental apartments. The residual value, useful lives and method of depreciation of property, plant and equipment are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

Goodwill and other intangible assets

Goodwill

Goodwill arising in business combinations is measured as the excess of the total of the consideration transferred, the non-controlling interest in the acquiree and the previously held interest over the fair value of the acquired net assets.

Goodwill is tested for impairment annually and whenever there is any indication that an asset may be impaired. For this purpose, goodwill is allocated to cash-generating units. Goodwill is recognised at cost less accumulated impairment losses.

Other intangible assets

An intangible asset is recognised in the balance sheet at the original acquisition cost if its acquisition cost can be determined reliably and it is likely that an expected economic benefit will flow to the Group from it.

Intangible rights are software and licenses as well as customer relationships based on agreements acquired through business combinations. Customer relationships based on agreements acquired in business combinations are recognised at the fair value at the acquisition date. Their useful lives are finite, so they are recognised in the balance sheet at acquisition cost less accumulated amortisation. The group's intangible assets have finite useful lives, and they are amortised in straight-line instalments during their estimated useful lives.

Research costs are recognised as expenses in the income statement. Development expenses is capitalised in the balance sheet once development phase expenses can be reliably estimated and it can be demonstrated that the development target will probably generate future economic benefit. Development expenses recognised in the balance sheet includes material and labour costs as well as any capitalised borrowing costs directly attributable to bringing the asset to working condition for its intended use. Prior development expenses recognised as expenses is not capitalised later.

The amortisation period for intangible rights and other intangible assets is 3–5 years. The residual value, useful lives and method of amortisation are reassessed at the end of each financial year and as necessary, adjusted to reflect the changes in the expected economic benefit.

Investment properties

Investment properties are properties which the Group holds in order to obtain rental income or appreciation in value or both. At inception investment properties are recognised at acquisition cost, which includes transaction costs. Investment properties are subsequently valued at the original acquisition price less accumulated depreciation and impairments. Investment properties are depreciated in straight-line instalments during their estimated useful lives. Land areas are not depreciated. Investment properties are business and residential properties and the estimated useful life of buildings and structures on these properties is 20 years. The residual value, useful lives and method of depreciation of investment properties are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

The fair values of investment properties are disclosed in the notes to the financial statements. Rental income obtained from investment properties is recorded on a straight-line basis over the period of the lease.

Impairment of intangible assets and property, plant and equipment

At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount from the asset item is estimated. Goodwill's recoverable amount is estimated annually regardless of whether there is any indication of impairment. Goodwill is also tested for impairment whenever there is any indication that the value of a unit may be impaired. Goodwill is tested for impairment at the level of individual cash-generating units, which is the lowest unit level mainly independent of other units and the cash flows of which are separable and mainly independent of cash flows of other corresponding units. A cash-generating unit is the lowest level within the Group at which goodwill is monitored for the purposes of internal management.

Recoverable amount is the higher of a unit's fair value less costs of disposal and its value in use. Value in use is the estimated discounted future net cash flows expected to be derived from the cash-generating unit. The discount rates used are pre-tax and reflect current market assessments of the time value of money and specific risks relating to the relevant asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is recognised as an expense. An impairment loss on a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. At recognition of the impairment loss, the useful life of the depreciated assets is reassessed. Impairment loss of other assets than goodwill is reversed in the case that a change has occurred in the estimates used in measuring the recoverable amount of the asset. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Impairment losses on goodwill are never reversed.

Associated companies

Associated companies are companies over which the Group has significant influence. Significant influence exists when the Group owns more than 20% of the company's voting power or when it otherwise has significant influence but not control. Associated companies have been consolidated using the equity method of accounting. Associated companies are disclosed in Note "Associated companies" and they are immaterial investments from the Group's viewpoint. The Group has sold the associated companies during the comparative financial year.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. There are two types of joint arrangements: joint operations and joint ventures. Joint ventures arise where the Group has rights to the net assets of the arrangement, whereas joint operations arise where the Group has rights to the assets and obligations relating to the liabilities of the arrangement. Joint ventures are consolidated using the equity method of accounting. The Groups interest in joint operations are consolidated in proportion to holding. Each item of assets, liabilities, income and expenses of jointly controlled entities are consolidated line by line into corresponding assets in the consolidated financial statement in proportion to holding. The Group has no such companies.

Inventories

Inventories are valued at the lower of acquisition cost and expected net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are comprised of sites under construction, completed sites intended for sale and raw materials and supplies used in the operations. The acquisition cost of these comprises the value of the plot and other raw materials, borrowing costs, planning costs, direct costs of labour and other direct and indirect costs relating to the construction projects.

Financial assets and liabilities

Financial assets

Based on the Group's business model for the administration of financial assets and their contractual cash flow characteristics, financial assets are classified as those recognised at amortised cost and those at fair value through profit or loss.

Transaction costs are included in the original carrying amount of financial assets in the case of items that are not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised at fair value in the balance sheet at the time of original recognition and transaction costs are recognised through profit or loss.

All purchases and sales of financial assets are recognised on the transaction date when the Group commits to the purchase or sale of the financial instrument. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets recognised at amortised cost

Financial assets recognised at amortised cost include financial assets under the held-to-collect business model, which are held until the due date in order to collect contractual cash flows. The cash flows of these items consist solely of principal and interest on the principal outstanding.

After initial measurement, the value of these financial assets is measured at amortised cost using the effective interest method, deducting any impairment. The Group recognises a deduction for expected credit losses from an asset item recognised at amortised cost in financial assets. Expected credit losses and impairment losses are disclosed in other operating expenses in the income statement.

The Group's financial assets recognised at amortised cost include trade and other receivables that are non-derivative financial assets. The carrying amount of short-term trade and other receivables is deemed to correspond to their fair value. Trade and other receivables are presented in the balance sheet as current assets if they are expected to be realised within 12 months of the end of the reporting period.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term and highly liquid investments. However, investments are subject to a greater risk of change in value than cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Items included in cash and cash equivalents have original maturities of three months or less.

Financial liabilities

Financial liabilities are recognised initially at fair value. Transaction costs are included in the original carrying amount of financial liabilities at periodised acquisition cost.

Financial liabilities are subsequently carried at amortised cost using the effective interest method. Financial liabilities are classified as non-current or current. The latter group comprises all those financial liabilities for which the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Derivatives

Derivatives are originally carried at fair value at the trade date and are subsequently measured at fair value. The Group does not apply hedge accounting on derivatives. At the balance sheet date, the Group had no derivatives.

Capitalisation of borrowing costs

Borrowing costs directly arising as a result of the acquisition, construction or manufacturing of a qualifying asset are capitalised as part of the acquisition cost of the asset in question. A qualifying asset is one that takes a substantial period of time to complete for its intended purpose. Capitalisation commences when the company first incurs expenditures for a qualifying asset giving rise to borrowing costs, and when it undertakes activities that are necessary for preparation of the asset for its intended use or for sale. Capitalisation ceases when all activities necessary to complete the asset for its intended use or sale have been carried out. In developer contracting housing projects, borrowing costs are capitalised in construction stage and recorded above operating profit as project cost upon delivery.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The Group's provisions are guarantee provisions based on estimated supplementary work expenses of completed contracts. The amount of a guarantee provision is estimated on the basis of experience of the materialisation of such guarantee expenses. If guarantee provisions materialise in an amount greater than estimated, the portion in excess is recorded as expense at the same time. If the provision is deemed excessive after the end of the guarantee period, the provision is released through profit or loss.

10-year liabilities in own building developments are presented as provisions to the extent their realisation is deemed probable and the amount of liability arising from them can be estimated reliably.

Provision is made for onerous contracts when the amount of expenditure required by the agreement to fulfil the obligations exceeds the benefits that may be derived from it.

A contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is only confirmed by one or more uncertain future events not wholly within the control of the group or when there is an obligation that is not recognised as a liability or provision because it is not probable that on outflow of resources will be required or the amount of the obligation cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements. At the balance sheet date, the Group had no contingent liabilities.

Leases

Group as lessee

The Group has long-term leases for land related to inventories; their lease period is often as long as 50-60 years. Land leases related to inventories are in the possession of the company during the project design and construction phase, that is, only a few years, but under IFRS 16 they must be classified as assets and liabilities. Most of the Group's other valid leases are for office premises and small machinery and equipment.

When measuring a lease liability, the present value of future payments takes into account any incentives, variable rents (indexes or based on price or other variable), residual value of the asset item, the realisation price of any purchase options or sanctions imposed due to termination of the lease. In fixed-term agreements, the lease period is the non-cancellable lease period and the probability of exercising an extension. The discount rate of a lease is the interest rate implicit in the lease or, if said rate cannot be readily determined, the incremental borrowing rate. Interest expenses on leases are presented in financial expenses. Leases are also recognised as assets and depreciated on a straight-line basis over the lease period. Leases with a lease period of less than one year or value of less than EUR 5,000 are expensed during the lease period.

Group as lessor

The Group is the lessor of one investment property and individual inventory shares. Rental income from them is presented in net sales. In addition, the company has rented out one business premise during the financial year. Its rental income is presented in other operating income. The Group is not a lessor in any other leases.

Revenue recognition principles

Sales recognised as revenue over time

Construction projects are recognised as revenue over time according to progress if the customer controls the asset as the asset is created or enhanced and the company has an enforceable right to payment for performance completed to date. Revenue from a performance obligation satisfied over time is recognised over time by measuring the progress towards complete satisfaction of the performance obligation in question. Satisfaction of the performance obligation is determined mainly based on costs incurred compared to estimated total costs if it does not materially differ from the satisfaction of the performance obligation determined otherwise.

A single method of measuring progress is applied for each performance obligation satisfied over time, and this method is consistently applied to similar performance obligations in similar circumstances. If the company is not able to reasonably measure the outcome of a performance obligation but expects to recover the costs incurred in satisfying the performance obligation, the company recognises revenue only to the extent of the costs incurred until the outcome of the performance obligation can reasonably be measured. If it is likely that the total costs of project completion exceed the total income from the project, the expected loss is entirely expensed.

If the agreement includes variable consideration, the variability is taken into account based on probability. The transaction price may be priced on a yield basis, whereby the final purchase price will not be finalized until the construction is completed. In determining the transaction price, the company adjusts the promised amount of consideration with a financing component if the payment schedule agreed by the parties provide the customer or the entity with a significant financing component in relation to the transfer of goods or services to the customer and if the duration is longer than one year.

Sales recognised as revenue upon delivery

If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time. The sale of property construction projects is recognised at the moment when control of the property is transferred to the buyer Net sales are recognised at the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or properties to a customer, with the exception of amounts collected on behalf of third parties. For apartments sold in the construction phase, control is deemed to have transferred upon completion, and for completed apartments, upon sale. Payments received from sold housing and real estates shares in progress are disclosed in Note ”Trade payables and other non-interest-bearing liabilities” under ”Advances received, revenue recognised upon delivery.

Sales recognised as rental income
Rental income shown in net sales relates to items that form the company’s actual business. Rental income relates to items that the company has itself built. Rental income shown in other operating income relates to items that doesn’t arise from the company’s actual business.

Recognition of interest and dividend income

Interest income is recognised using the effective interest method. Dividends are recorded when the right to receive payment is established.

Operating profit

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. The Group has defined it as follows: operating profit is the net sum which is formed by adding other operating income to net sales and then deducting changes in the inventory of finished goods and work in progress, material and services, cost of employee benefits, depreciation, amortisation and possible impairment losses and other operating expenses. All other items of income statement are presented below operating profit.

Employee benefits

Pension obligations

Group companies have pension plans. The plans are classified as either defined benefit plans or defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the pension benefits. All arrangements that do not meet these criteria are defined benefit plans. Payments made to the defined contribution plans are recognised in the income statement in the period in which they were incurred. All of the Group's pension plans are defined contribution plans.

Share-based payments

The company has two share-based incentive plans in place. Rewards are paid under the incentive plan partly in the form of shares and partly in the form of cash. The granted benefits are measured at fair value at the time of granting and are recognised as expenses in the income statement and equity evenly over the vesting period of the rights. The expense recognised for the incentive plan is based on the Group's estimate on the number of shares that eventually vest at the end of the vesting period.

Related party transactions

The Group's related parties include Group companies, members of the Board of Directors and the Group's top managements as well as entities on which related parties, or their family have influence through ownership or management. Related parties also include associated companies and joint ventures. Transactions with related parties are disclosed in Note "Related party transactions".

Income taxes

Tax expenses on the consolidated income statement include taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred tax liabilities and assets. Tax consequences relating to items recognised directly in equity are similarly recognised as equity.

Changes in deferred taxes are calculated on temporary differences between the carrying amount and taxable value on the basis of the tax rate in force at the balance sheet date or confirmed tax rates entering into force subsequently. Deferred tax assets have been recognised to the extent that it is probable that taxable income against which the temporary difference can be applied will materialise in the future. The most significant temporary differences arise from unused taxable losses, revenue recognised for construction contracts by stage of completion and capitalisation of and financial expenses.

Tax-deductible losses have been taken into account as deferred tax assets to the extent that it is probable that the company can use them in the near future. No deferred taxes are calculated on goodwill that is not deductible in taxation.

Accounting principles requiring management judgement and the main factors of uncertainty affecting the estimates

When financial statements are prepared, the management must make estimates and exercise judgement in the application of the accounting policies. These estimates and decisions have an effect on the amounts of assets, liabilities, income and expenses and contingent liabilities recorded for the reporting period. The estimates and assumptions are based on historical experience and other justifiable assumptions deemed reasonable in the conditions where items entered in the financial statements have been estimated.

Management has exercised judgement in determining the economic lives of intangible assets and property, plant and equipment and investment properties. The most significant estimates at the balance sheet date and assumptions about the future relating to stage of completion revenue recognition, inventories, provisions and impairment testing. Below are presented the most significant items of the financial statements where management judgement and estimates were required.

Stage of completion revenue recognition

In construction contracts recognised using the stage of completion method revenue is based generally on the contract and revenue projections for the projects are estimated on a regular basis. Project total costs are based on the management's best estimate of the trend in total cost of project completion. The actual income and costs incurred, and the estimated result are monitored regularly on a monthly basis.

Inventories

The Group assess the valuing of inventory and possible decrease in value on its best estimate on a regular basis. The value of finished unsold sites included in inventories is the lower of their acquisition cost and the probable selling price. When estimating the probable selling price, the management takes into account the market situation and possible demand for the site.

Provisions

Provisions mainly consist of guarantee provisions typical for the industry. The amount is estimated on the basis of experience of the materialisation of such guarantee expenses.

Goodwill impairment testing

Goodwill is tested for impairment annually. Recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The cash flows in value-in-use calculations are based on the management's best estimate of profit and market development. Estimates used in goodwill testing are disclosed in Note "Goodwill".

New and revised standards and interpretations

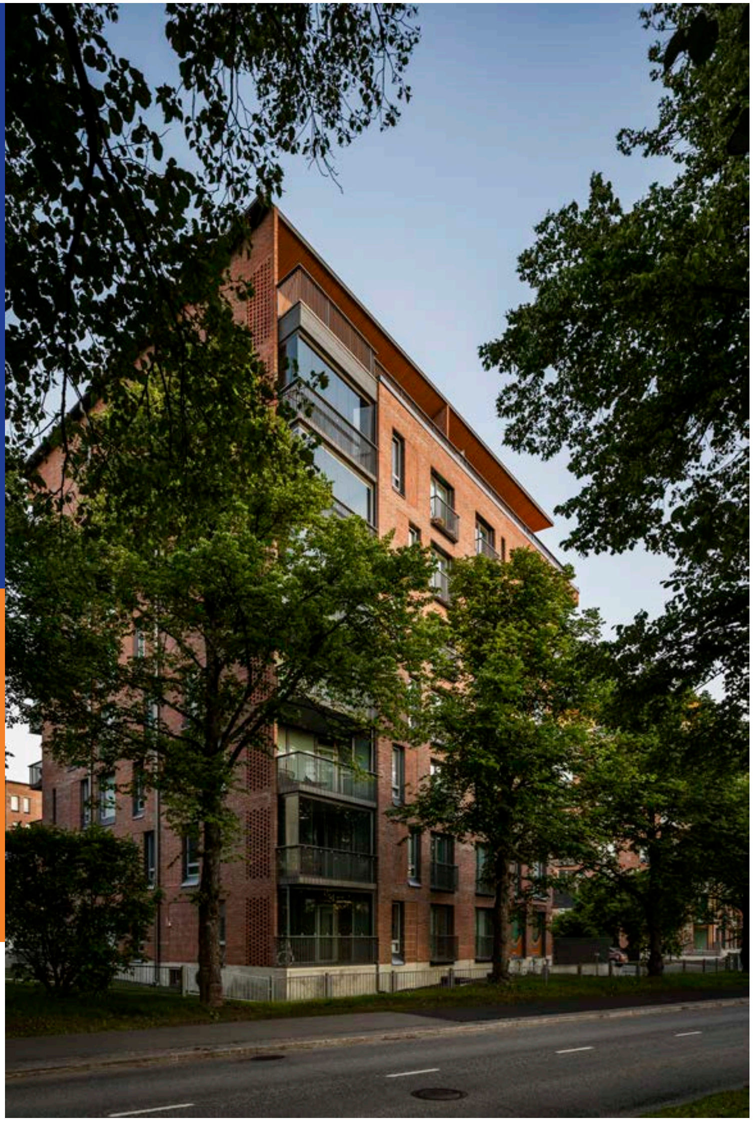
The following new and amended standards relating to preparing consolidated financial statements must be applied in financial periods starting on 1 January 2020 or thereafter.

- Amendments to IFRS 3, IAS 1 and IAS 8
- Amendments to IFRS 9, IAS 39 and IFRS 7
- Amendments to IFRS 16 Leases - Covid-19-Related Rent Concessions

The following new and amended standards for the preparation of consolidated financial statements are effective for financial periods starting on or after 1 January 2021:

- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IAS 1 Presentation of Financial Statements

New or amended standards and interpretations have no significant impact on the consolidated financial statements or they have an effect on the disclosure requirements in the notes.



Notes to the Consolidated Financial Statements

1. OPERATING SEGMENTS

The Group has one operating segment, Building Services. The company operates geographically mainly in Finland only. The Group Management Team is the chief operating decision-making body responsible for estimating the profitability of the operating segment and for resourcing decisions. Group management reporting is based on financial statements prepared in accordance with the IFRS standards.

Result	2020	2019
Net sales	***544 651***	***667 701***
of which in Finland	*544 651*	*665 740*
of which in Sweden	*0*	*1 961*
Other operating income	970	1 500
Operating expenses	-540 862	-702 834
Depreciation and amortisation	-7 626	-8 203
Operating result	***-2 866***	***-41 836***
Interest income	346	262
Interest costs	-4 327	-3 973
Shares of associated company results		
Segment's profit/loss before income taxes	***-6 848***	***-45 547***
Assets		
Segment's assets	***383 799***	***451 762***
Investments	4 268	3 971
Liabilities		
Segment's liabilities	***260 163***	***339 636***

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 68.1 million in 2020 (EUR 85.9 million in 2019), corresponding to approx. 12% (13%) of the segment's net sales. In 2020, the share of net sales of the largest individual customer was 4% (8% in 2019).

2. NET SALES

	2020	2019
Revenue recognised over time	376 741	349 099
Revenue recognised upon delivery	166 918	317 979
Rental income	993	623
Total	**544 651**	**667 701**

Rental income shown in net sales relates to items that form the company's actual business. Rental income relates to items that the company has itself built.

Revenue recognised that was included in the contract liability balance (advances received) at the beginning of the year was EUR 49.5 (53.2) million.

3. OTHER OPERATING INCOME

	2020	2019
Rental income	38	82
Grants	22	23
Damages	589	332
Capital gains	6	862
Other income	316	202
Total	**970**	**1 500**

Rental income shown in other operating income relates to items that doesn't arise from the company's actual business. Capital gains consist of the gain on sales of share investments.

4. EMPLOYEE BENEFIT EXPENSES

	2020	2019
Salaries and wages	52 898	67 368
Share-based incentives, portion to be paid out in cash	155	182
Share-based incentives, to be paid out in shares	518	431
Pension costs– defined contribution plans	8 188	11 772
Other personnel costs	1 945	2 461
Total	**63 705**	**82 214**

More detailed description of share-based incentive plans is in note "Equity".

Number of personnel in average during the year, Group	2020	2019
Salaried employees	591	742
Workers	524	712
Total	**1 115**	**1 454**

Number of personnel at the end of the financial year, Group	2020	2019
Salaried employees	560	674
Workers	474	600
Total	**1 034**	**1 274**

5. DEPRECIATION AND AMORTISATION

Depreciation and amortisation of property, plant and equipment	2020	2019
Machinery and equipment		
Machinery and equipment	2 186	2 539
Machinery and equipment, right-of-use asset	228	206
Properties		
Properties in own use	742	718
Business premises, right-of-use asset	1 635	1 705
Inventories, right-of-use asset	1 131	1 769
Other tangible assets	114	111
Total	**6 036**	**7 050**

Depreciation and amortisation of intangible assets	2020	2019
Customer relationships	300	300
Other intangible assets	1 271	845
Total	**1 571**	**1 145**

Depreciation of investment properties	2020	2019
Buildings and structures	19	7
Total	**19**	**7**
Depreciation and amortisation, total	**7 626**	**8 203**

6. OTHER OPERATING EXPENSES

	2020	2019
Voluntary personnel expenses	1 831	2 871
Costs related to construction site and office space	3 136	4 169
IT and equipment expenses	3 088	3 341
Travel expenses	2 691	3 722
Product development expenses	434	401
Marketing expenses	2 839	4 198
Administrative services	3 594	3 611
Reduction from expected credit loss	22	51
Other operating expenses	1 833	1 972
Total	**19 468**	**24 337**

Fees paid to auditor:	2020	2019
Audit fees	271	285
Certificates and statements	1	3
Tax services	57	16
Other services	56	104
Total	*385*	*408*

7. FINANCIAL INCOME AND EXPENSES

Financial income	2020	2019
Dividend income	0	0
Other financial income	346	262
Total	**346**	**262**

Financial expenses	2020	2019
Interest expenses	3 694	3 740
Interest expenses from lease liabilities	1 228	1 873
Capitalised interest expenses	-1 730	-2 973
Other financial expenses	1 135	1 334
Total	**4 327**	**3 973**
Financial income and expenses, total	**-3 981**	**-3 711**

8. INCOME TAXES

	2020	2019
Current income tax	384	712
Change deferred tax assets	1 178	-10 347
Change deferred tax liabilities	-215	-163
Total	**1 348**	**-9 797**

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country	2020	2019
Tax rate	20,0 %	20,0 %
Profit before taxes	-6 848	-45 547
Taxes calculated at the tax rate of the domicile country	-1 370	-9 109
Tax-exempt income	-0	-945
Non-deductible expenses	395	130
Taxes for the previous financial years		523
Effect of foreign subsidiaries' different tax rates	19	-395
Unrecognized losses	2 304	
Total	**1 348**	**-9 797**

9. SHARE-BASED KEY FIGURES

	2020	2019
Result for the financial year attributable to equity holders of the parent company	-8 196	-35 750
Issue-adjusted average number of outstanding shares during the period, basic	71 012 014	70 597 352
Earnings per share, basic, EUR/share	-0,12	-0,51
Issue-adjusted average number of outstanding shares during the period, diluted	71 330 955	70 752 453
Earnings per share, diluted, EUR/share	-0,11	-0,51
Issue-adjusted number of outstanding shares at the end of the year	87 089 901	70 612 735
Equity / share	1,42	1,59
Dividend / share	– *)	-

*) Dividend proposal

Number of shares is issue-adjusted due share issue in December 2020. Share issue rate is 1.211.

10. GOODWILL

Cash-generating unit: Building Services	2020	2019
Goodwill	4 624	4 624

For the purposes of goodwill impairment testing, recoverable cash flows have been determined based on value-in-use calculations. A cash generating unit is the acquired business entity to which goodwill relates. The cash flows of cash generating units for the next five years have been discounted to their present value and the discount rate used is the weighted average cost of capital (WACC) determined for Lehto. Cash flows after five years – the residual value – have not been taken into consideration in the calculations, as they are impacted by actions taken after the goodwill was recognised and which change the performance of the cash generating unit. Cash flow forecasts are based on the budgets for 2021 approved by the company's management and the strategic forecasts for 2022-2025.

The pre-tax weighted average cost of capital (WACC) has been remeasured based on the weighting of the indicators of an industrial comparison group with the average capital structure in the sector. This measurement takes into account indicators such as sector-specific beta value, country risk, market risk premium, interest on borrowing in the sector, risk-free interest rate, and the risk premium related to the company's size class. According to the calculation, the discount rate to be used in the 2020 financial statements is 10.55% (8.06% in 2019).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2019. No material changes with an impact on expected cash flow from operations has occurred in the business environment compared with the previous financial year. Impairment testing on 31 December 2020 did not indicate a need to recognise impairment.

A sensitivity analysis was performed in connection with impairment testing; as a result, the net sales and operating result forecast for the next five years was lowered by 15% and the discount rate was increased by 5 percentage points. The value of the asset item was deemed to be dependent on the operating result in particular. No need for recognition of impairment was found on the basis of the sensitivity analysis.

11. OTHER INTANGIBLE ASSETS

Intangible assets 2020	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2020	4 282	6 679	10 961
Increases		1 421	1 421
Acquisition cost at 31 Dec. 2020	**4 282**	**8 100**	**12 382**
Accumulated depreciation and amortisation at 1 Jan. 2020	-3 757	-2 508	-6 264
Depreciation	-300	-1 271	-1 571
Accumulated depreciation and amortisation at 31 Dec. 2020	**-4 057**	**-3 779**	**-7 835**
Carrying amount at 1 Jan. 2020	525	4 172	4 697
Carrying amount at 31 Dec. 2020	**225**	**4 322**	**4 547**

Intangible assets 2019	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2019	4 282	3 079	7 361
Increases		3 600	3 600
Acquisition cost at 31 Dec. 2019	**4 282**	**6 679**	**10 961**
Accumulated depreciation and amortisation at 1 Jan. 2019	-3 457	-1 662	-5 119
Depreciation	-300	-845	-1 145
Accumulated depreciation and amortisation at 31 Dec. 2019	**-3 757**	**-2 508**	**-6 264**
Carrying amount at 1 Jan. 2019	825	1 417	2 242
Carrying amount at 31 Dec. 2019	**525**	**4 172**	**4 697**

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2020	Right-of-use asset	Properties in own use	Machinery and equip. and other tangible assets	Total
Acquisition cost at 1 Jan. 2020	8 547	14 187	15 332	38 066
Increases	2 284	-3	565	2 847
Decreases	-1 847			-1 847
Acquisition cost at 31 Dec. 2020	**8 984**	**14 184**	**15 898**	**39 066**
Accumulated depreciation and amortisation at 1 Jan. 2020	-1 911	-1 867	-7 711	-11 489
Amortisation				
Depreciation	-1 862	-742	-2 300	-4 905
Accumulated depreciation and amortisation at 31 Dec. 2020	**-3 774**	**-2 610**	**-10 010**	**-16 394**
Carrying amount at 1 Jan. 2020	6 636	12 319	7 622	26 577
Carrying amount at 31 Dec. 2020	**5 211**	**11 574**	**5 887**	**22 672**

Property, plant and equipment 2019	Right-of-use asset	Properties in own use	Machinery and equip. and other tangible assets	Total
Acquisition cost at 1 Jan. 2019		14 057	15 091	29 148
Effect of IFRS 16 standard amendment on Jan 1	8 547			8 547
Increases		130	241	371
Acquisition cost at 31 Dec. 2019	**8 547**	**14 187**	**15 332**	**38 066**
Accumulated depreciation and amortisation at 1 Jan. 2019		-1 149	-5 060	-6 209
Amortisation			-1	-1
Depreciation	-1 911	-718	-2 650	-5 280
Accumulated depreciation and amortisation at 31 Dec. 2019	**-1 911**	**-1 867**	**-7 711**	**-11 489**
Carrying amount at 1 Jan. 2019		12 908	10 032	22 940
Carrying amount at 31 Dec. 2019	**6 636**	**12 319**	**7 622**	**26 577**

13. INVESTMENT PROPERTIES

Investment properties 2020	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2020	202	809	1 011
Acquisition cost at 31 Dec. 2020	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2020		-282	-282
Depreciation		-19	-19
Accumulated depreciation and amortisation at 31 Dec. 2020		**-300**	**-300**
Carrying amount at 1 Jan. 2020	202	527	730
Carrying amount at 31 Dec. 2020	**202**	**509**	**711**

Investment properties 2019	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2019	202	809	1 011
Acquisition cost at 31 Dec. 2019	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2019		-274	-274
Depreciation		-7	-7
Accumulated depreciation and amortisation at 31 Dec. 2019		**-282**	**-282**
Carrying amount at 1 Jan. 2019	202	554	757
Carrying amount at 31 Dec. 2019	**202**	**527**	**730**

Net rental income	2020	2019
Rental income from investment properties	83	43
Direct maintenance costs for investment properties	27	29
	56	**14**

Fair values of investment properties

The Group's investment properties are properties available for rent. Investment properties are recognised using the acquisition cost method and they are not valued at fair value through profit and loss.

Balance sheet values and fair values of investment properties

	Valuation method	Level	Fair value 2020	Fair value 2019
Business property	Acquisition cost	3	598	606
Land area	Acquisition cost	3	202	202
			800	**808**

The fair values of investment properties are determined by the company itself using the cash flow method. Fair values of level 3 asset items are based on input data concerning the asset item, which are not based on verifiable market information but are based substantially on management estimates and their use in generally accepted valuation models.

14. INVESTMENTS IN ASSOCIATED COMPANIES

	2020	2019
Investments in associated companies at 1 Jan.		859
Decreases		-859
Investments in associated companies at 31 Dec.		

The Group has sold all shares of associated companies during the year 2019.

15. OTHER FINANCIAL ASSETS

Financial assets recognised through profit and loss	2020	2019
Financial assets recognised through profit and loss at 1 Jan.	775	214
Increases		757
Decreases	-4	-195
Financial assets recognised through profit and loss 31 Dec.	**771**	**775**

Financial assets recognised through profit and loss are unlisted share investments. The shares are recognised at acquisition cost because there is no quoted price for fully similar instruments in active market. Financial assets recognised through profit and loss are classified at level 3 in the hierarchy.

16. NON-CURRENT RECEIVABLES

	2020	2019
Non-current security deposits	12 922	
Non-current loan receivables	1 555	1 915
Other non-current receivables	163	
Total	**14 640**	**1 915**

17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets 2020	1 Jan 2020	Recognised in income statement	31 Dec 2020
Fixed assets internal margin	64	-13	50
Confirmed losses	12 522	-398	12 124
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	3 831	-771	3 060
Other temporary differences	29	4	33
Exchange rate difference in opening balance	28		134
Total	**16 473**	**-1 178**	**15 401**

Deferred tax liabilities 2020	1 Jan 2020	Recognised in income statement	31 Dec 2020
Temporary differences from capitalisation of financial expenses	81	-57	24
Depreciation difference with taxation	348	-89	260
Other temporary differences	123	-69	53
Total	**552**	**-215**	**337**

On Dec 31, 2020 the Group had EUR 10.2 (0.0) million confirmed losses for which no deferred tax receivables have been recognized because the Group consideres it possible that it will not have taxable income before the losses expire. Of these losses, EUR 7.6 million are allocated to Finland and EUR 2.6 million to Sweden. These losses will expire from 2030 onwards.

Deferred tax assets 2019	1 Jan 2019	Recognised in income statement	31 Dec 2019
Fixed assets internal margin	47	16	64
Tax losses carried forward	84	12 438	12 522
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	5 965	-2 134	3 831
Other temporary differences	2	26	29
Exchange rate difference in opening balance	-5		28
Total	**6 093**	**10 347**	**16 473**

Deferred tax liabilities 2019	1 Jan 2019	Recognised in income statement	31 Dec 2019
Temporary differences from capitalisation of financial expenses	85	-4	81
Depreciation difference with taxation	394	-45	348
Other temporary differences	236	-113	123
Total	**715**	**-163**	**552**

18. INVENTORIES

	2020	2019
Materials and supplies	2 413	3 986
Work in progress	84 770	161 441
Right-of-use asset	27 773	39 803
Completed products	18 654	44 340
Inventory shares	49	123
Other inventories	2 030	749
Total	**135 688**	**250 441**

19. TRADE AND OTHER RECEIVABLES

	2020	2019
Trade receivables	46 276	50 484
Loan receivables	1 022	1 430
Current tax assets		0
Security deposits	10 067	
Other receivables	1 230	3 862
Receivables from customers for constructing contracts	20 465	29 608
Adjusting entries for assets	632	923
Total	**79 691**	**86 307**

Ageing analysis of trade receivables	**2020**	**2019**
Not yet due	38 479	36 269
Reduction from expected credit loss	-84	-62
Due for		
less than 30 days	3 801	10 840
30–60 days	577	634
61–90 days	157	1 265
more than 90 days	3 346	1 538
Total	**46 276**	**50 484**

No significant concentrations of credit risk are associated with the receivables. The balance sheet values equal reasonably to fair values.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
Financial assets at fair value through profit or loss	314	313
Total	**314**	**313**

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term and highly liquid investments. The fair value of the investment is determined using the buying rate of the counterparty at the end of the reporting period.

21. CASH AND CASH EQUIVALENTS

	2020	2019
Cash in hand and at banks	104 741	58 911
Total	**104 741**	**58 911**

22. EQUITY

	Number of shares	Share capital	Invested non-restricted equity reserve	Total
31 December 2015	**22 655 202**	**100**	**5 830**	**5 930**
Share split 30 March 2016	22 655 202			
Directed share issue on 28 April 2016	11 874 705		63 325	**63 325**
Conversion of equity loan 28 April 2016	1 065 643			
31 December 2016	**58 250 752**	**100**	**69 155**	**69 255**
31 December 2017	**58 250 752**	**100**	**69 155**	**69 255**
31 December 2018	**58 250 752**	**100**	**69 155**	**69 255**
Directed share issue on 19 March 2019	58 691			
31 December 2019	**58 309 443**	**100**	**69 155**	**69 255**
Directed share issue on 18 Dec 2020	29 029 967		19 539	**19 539**
31 December 2020	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	249 509			
Outstanding shares on 31 December 2020	**87 089 901**			

SHARES AND SHARE CAPITAL

Annual General Meeting on 14 April 2020

The Annual General Meeting on April 14, 2020 authorised the Board to decide on the purchase of the company's own shares as one or several instalments using assets belonging to the shareholders' surplus, such that the maximum quantity purchased be 5,320,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki Ltd in accordance with its rules or using another method. The consideration paid for the purchased shares should be based on the market price. The authorisation also entitles the Board of Directors to decide on the purchase of shares other than in proportion to the shares owned by the shareholders (directed purchase). Then, there should be sound financial reasons for the company to purchase its own shares. Shares can be purchased to implement arrangements linked to the company's business operations, or otherwise to transfer or invalidate. The purchased shares can also be stored by the company. The Board of Directors is authorised to make decisions on all other conditions and circumstances pertaining to the purchase of own shares. The purchase of own shares reduces the shareholders' surplus. The authorisation is proposed to remain valid until the end of the following annual general meeting but in any case, not longer than 30 June 2021. Separately the Annual General Meeting authorised the Board of Directors to purchase the company's own shares with the aforementioned terms, such that the maximum quantity purchased be 480,000 shares when the purchase is made to execute the company's share-based incentive systems. The authorisation is valid until 30 June 2023.

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 5,320,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or without consideration. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the company's point of view and the benefit of all its shareholders. The Board of Directors is authorised to decide on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares. Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, or when the company purchases assets linked to its operations. The authorisation is proposed to be valid until the end of the following annual general meeting but in any case, no later than 30th June 2021. The authorisation shall replace the company's previous share issue and option authorisations. Separately the Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 480,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several instalments when the issue is used to implement company's share-based incentive systems. The authorization is valid until 30 June 2023.

Extraordinary General Meeting on 25 September 2020

The Extraordinary General Meeting authorised the Board of Directors to resolve on the issuance of a maximum of 60,000,000 new shares to carry-out the rights issue. With the share issue, the company wants to strengthen its ability to implement the strategy and further develop modular construction method based on prefabricated elements. The shares are offered for subscription to the shareholders of the company in proportion to their shareholding in the company as per the record date of the rights issue. The authorisation includes the right for the Board of Directors to resolve to offer, on a secondary basis, the potentially unsubscribed shares to the other shareholders or other persons for subscription. The authorisation can only be used to carry-out one rights issue. The Board of Directors was authorised to resolve on all other terms and conditions of the rights issue.

It was resolved that the authorisation is valid until the close of the next Annual General Meeting, however, no longer than until 30 June 2021. The authorisation does not revoke the share issue authorisations resolved upon earlier.

Repurchase and transfer of own shares and share issue

With the authorization given by the Annual General Meeting held on March 29, 2019, the company carried out the repurchase of 306,702 own shares in March-April 2020 and a directed share issue, 50,341 shares, to implement the share-based incentive plan. In December 2020, the company carried out a share issue of 29,029,967 shares. The share issue ratio is 1,211.

At balance sheet date, the number of shares totalled 87,339,410, of which the company holds 249,509 shares. The share capital is EUR 100,000. The company has one series of shares and all shares are of the same class. Each share entitles its holder to one vote in the General Meeting of Shareholders and to an equal amount of dividend.

Invested non-restricted equity reserve

The invested non-restricted equity reserve contains equity investments and that part of the share subscription price that has not specifically been allocated to share capital.

The funds received from the IPO, less total fees and expenses for the IOP, have been recorded to invested non-restricted equity reserve.

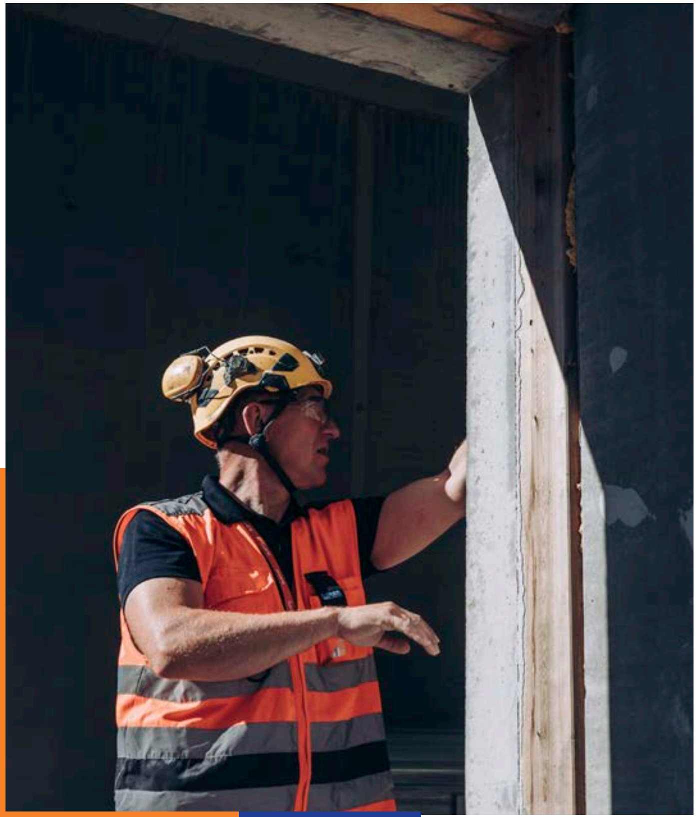
Share-based compensations

On 20 December 2016, The Board of Directors of Lehto Group Plc has resolved to launch two new share-based incentive plans for the Group key employees. The aim of the plans is to combine the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to commit the key employees to the Company, and to offer them competitive reward plans based on earning the Company's shares.

The potential reward from the long-term incentive plan will be paid to the key employees after a two-year restriction period partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2018-2020 correspond to the value of an approximate maximum total of 1,500,000 Lehto Group Plc shares including also the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into the shares.

After the earning period, the gross performance bonus entered for the participant in the performance bonus plan will be converted into shares. When converting the performance bonus into shares, the trade volume weighted average quotation on Nasdaq Helsinki Oy (conversion rate) will be the weighted trading rate of the 20 trading days following the date of release of the company's financial statement bulletin. In spring 2020 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2017 of the long-term incentive plan adopted by Lehto in 2017. In the share issue 50,341 Lehto Group Plc's shares owned by the company were issued free of consideration to 29 group key employees in accordance with the terms and conditions of the plan. The Issue Shares corresponded to approximately 0.1 per cent of Lehto's shares and votes prior to the share issue. For the earning period 2018, the performance bonus for members of the share plan was EUR 880,000, which adjusted with share issue ratio due share issue in December 2020 converts into 69,544 shares. For the earning period 2019 the performance bonus for members of the share plan was EUR 326,000, converted to issued-adjusted shares 145,583.



Arrangement	2018	2019	2020
	Earning period		
Nature of arrangement	Shares	Shares	Shares
Date of issue	14 Feb 2018	12 Feb 2019	20 Feb 2020
Number of instruments issued (issued-adjusted)	69,544	145,583	175,831 (estimate)
Share price on grant date (issued-adjusted)	10.29	3.57	1.89
Period of validity	3 years	3 years	3 years
Expected performance, %	100 %	100 %	100 %
Terms and conditions of conferral of right	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms
Carried out	As shares	As shares	As shares

For the 2018, 2019 and 2020 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2020 will be adjusted according to the terms and conditions once the conversion rate (subscription price) has been established. The number of shares issued on the balance sheet date is based on an estimate.

The fair value of the shares is based on the quoted share price. The amount recognised as an expense is presented under "Employee benefit expenses" in the Notes.

Furthermore, the Board of Directors decided to continue the Group's restricted share plan. The reward from the restricted share plan is based on a key employee's valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash. No key personnel were covered by the restricted share plan in 2020.

23. PROVISIONS

Provisions 2020	Guarantee provisions	Onerous projects	Total
Provisions 1 Jan. 2020	8 190	1 194	9 384
Increases	5 852	1 217	7 069
Decreases	-3 932		-3 932
Provisions 31 Dec. 2020	**10 110**	**2 411**	**12 522**

Provisions 2019	Guarantee provisions	Onerous projects	Total
Provisions 1 Jan. 2019	7 759	2 616	10 375
Increases	5 894		5 894
Decreases	-5 463	-1 422	-6 885
Provisions 31 Dec. 2019	**8 190**	**1 194**	**9 384**

Guarantee provisions include estimated supplementary work expenses for construction projects completed during the financial year and actual supplementary work expenses incurred for construction projects completed during the previous financial year as a decrease. The guarantee period for a construction contract is 2 years and 10 years for developer contracting projects. The provision recorded is based on experience from previous years. Provisions are recorded as an expense in the item in which they are expected to materialise. Onerous projects include the estimated amount of expenditure that exceeds the benefits that may be derived from it.

24. FINANCIAL LIABILITIES

	2020	2019
Non-current loans from financial institutions	4 739	5 556
Non-current instalment debts	106	373
VAT loan arrangement with the Tax Administration	5 130	
Non-current lease liabilities	31 509	44 658
Total	**41 484**	**50 586**

	2020	2019
Current loans from financial institutions	44 818	103 289
Current instalment debts	267	303
VAT loan arrangement with the Tax Administration	12 133	
Debts on shares in unsold housing and real estate company shares in progress	-0	17 085
Debts on shares in unsold housing and real estate company shares completed	13 185	15 754
Current lease liabilities	1 787	2 147
Total	**72 189**	**138 579**
Financial liabilities, total	**113 673**	**189 165**

Financial liabilities are mainly market loans with a floating rate and their carrying amounts correspond to their fair values.

	1 Jan 2020	Cash flows	Non-cash flows	31 Dec 2020
Non-current financial liabilities	50 586	1 507	-10 609	41 484
Current financial liabilities	138 579	-66 029	-360	72 189
Total	**189 165**	**-65 523**	**-10 969**	**113 673**

	1 Jan 2019	Cash flows	New leases	31 Dec 2019
Non-current financial liabilities	20 101	-18 891	49 377	50 586
Current financial liabilities	95 802	40 629	2 147	138 579
Total	**115 903**	**21 738**	**51 524**	**189 165**

25. TRADE PAYABLES AND OTHER NON-INTEREST-BEARING LIABILITIES

Non-current non-interest-bearing liabilities	2020	2019
Estimated purchase prices from inventory shares	115	122
Total	**115**	**122**

Current non-interest-bearing liabilities	2020	2019
Advances received		
From projects where revenue recognised over time	12 476	14 930
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estate shares in progress	51 644	28 855
Debts on shares in sold housing and real estate shares in progress		28 801
Other advances received	278	635
Trade payables	36 051	29 755
Other liabilities		
Liabilities paid to the Tax Administration	11 046	14 481
Other liabilities	2 534	4 002
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	10 249	11 763
Income tax debt	50	83
Other adjusting entries for liabilities	9 188	7 109
Total	**133 516**	**140 413**

26. FINANCIAL RISK MANAGEMENT

The Group's main sources of funding consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has some revolving credit limits. At the end of 2020, the cash and cash equivalents amounted to EUR 104.7 million (EUR 58.9 million 31 December 2019) and financial assets at fair value through profit or loss EUR 0.3 (0.3) million. The amount of credit limits at the end of 2020 was EUR 39.0 million, which all was in use.

On 30 June 2020 Lehto signed an agreement replacing its earlier syndicated Revolving Credit Facility. The agreement is based on the same bank syndicate as earlier comprising of 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. The agreement includes partial collaterals and financial covenants on EBITDA, interest-bearing net debt and net gearing that may also affect to the distribution of dividends while the Revolving Credit Facility is in force. According to the agreement, some of the credit will be repaid before the end of the contractual period and the rest upon expiry of the agreement.

In July 2020 the Lehto entered into a loan facility with the Tax Administration for the company's VAT exposures of approximately EUR 21 million. The VAT loan arrangement has arisen from the opportunity offered by the Tax Administration to prepare for potential impacts of the coronavirus epidemic, in practice by borrowing back the VAT paid in the spring season of 2020.

The Group has taken out so-called RS loans for its developer contracting projects. RS loans are provided by credit institutions under certain terms and condition for designated housing construction sites.

Foreign exchange risk

The Group's foreign exchange risk is currently somewhat low because income and expenses are denominated mainly in euros. If an order is agreed on in a foreign currency, the method of hedging the exchange rate risk and the hedge ratio is determined separately in each case. Foreign exchange differences arising from hedging is recorded in the income statement under financial income and expenses. During the financial period and at balance sheet date the Group had no open currency hedges.

The Group's functional currency is euro. At the balance sheet date, the Group had liabilities denominated in foreign currency EUR 0.6 million (EUR 0.7 million on 31 December 2019) and receivables denominated in foreign currency totalling EUR 1.6 million on 31 December 2020 (EUR 1.2 million in 2019). Most of the foreign currency exposure came from Swedish Crown.

Interest rate risk

Due to the relatively small amount of interest-bearing non-current liabilities, interest rate risk of related balance sheet items is not very significant for the Group. Interest rate risk originates mainly from interest-bearing liabilities on the balance sheet, which mainly consist of floating rate bank loans. If necessary, the Group can alter the interest rate fixing period of its loan portfolio by rearranging its loan portfolio, with interest rate swaps or with other derivative instruments. The hedge ratio can vary between 0 and 100 per cent. The company monitors the interest rate risk of its loan portfolio and may change the interest rate fixing periods as necessary.

Sensitivity analysis for loans with floating rates	2020		2019	
Change, %	1 %	-1 %	1 %	-1 %
Impact on profit/loss after taxes	-39	39	-47	47

Credit risk

The Group's most significant credit risk is related to trade receivables from the customers. The aging distribution of trade receivables and the solvency of largest customers is monitored on group level and by the Group companies. The credit risk is also managed by granting customers regular payment terms only. Payment terms applied in the Group currently range from 7 days to 45 days and the most typical payment term is 30 days. Furthermore, for individual projects a longer payment term can be agreed on, where the payment is made as a one-off payment at the end of the project.

Liquidity risk

The liquidity risk in managed through maintaining an adequate infrastructure for planning and monitoring of funding and cash management. To secure immediate liquidity the Group has credit limits. The amount of un-used credit limits on 31 December 2020 was EUR 0.0 million (EUR 21.0 million in 2019).

Analysis of debt maturity

31 Dec 2020	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	71 419	9 549	1 050	82 018
Lease liabilities	2 453	8 569	38 541	49 563
Trade payables and other non-interest-bearing liabilities	49 632	115		49 747

31 Dec 2019	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	140 125	5 928		146 054
Lease liabilities	3 376	7 870	52 389	63 635
Trade payables and other non-interest-bearing liabilities	48 238	122		48 360

Capital management

The objective of the Group's capital management is to support business operations through an optimal capital structure and to increase shareholder value with the objective of achieving the best possible return. Another aim with optimal capital structure is to ensure reasonable capital costs.

Net liabilities	2020	2019
Interest-bearing liabilities	113 673	189 165
Cash and cash equivalents and interest-bearing receivables	-105 054	-59 224
	8 619	**129 941**
Equity, total	123 636	112 126
Gearing	40,0 %	49,9 %
Net gearing ratio	7,0 %	115,9 %

27. JOINT ARRANGEMENTS

In comparison year the Group had a 50% holding in two joint operations, Työyhteenliittymä Kastelli-Optimikodit Kirkkonummen Aurinkopuisto and Työyhteenliittymä Rakennuskartio/ Kastellitalot Oy. The joint operations are consolidated in proportion to holding. The joint operations ended during the financial year.

Assets, liabilities, expenses and revenue of joint operations included in the consolidated balance sheet and the comprehensive income statement were as follows:

	2020	2019
Current assets	-	4
Current liabilities	-	23
Revenue	-	7
Expenses	-	

28. LEASES

Group as lessee

The currently valid lease agreements of the company related to tangible assets are primarily leases of business premises and minor leases for small machinery and equipment. In addition, the company has land lease agreements which are related to inventories.

Right-of-use assets and lease liabilities 2020	Inventories	Property, plant and equipment	Lease
1 Jan. 2020	40 106	6 636	46 805
Increases	34 411	2 284	36 492
Decreases	-45 376	-1 847	-47 461
Depreciation / instalments	-1 131	-1 862	-2 540
Dec 31, 2020	**28 009**	**5 211**	**33 296**

Right-of-use assets and lease liabilities 2019	Inventories	Property, plant and equipment	Lease
Effect of IFRS 16 standard amendment on Jan 1	101 662	8 547	110 209
Decreases	-59 787		-58 685
Depreciation / instalments	-1 769	-1 911	-4 719
Dec 31, 2019	**40 106**	**6 636**	**46 805**

The average incremental borrowing rate of lessees is 2.0%. Interest expenses related to lease liabilities in 2020 amounted to EUR 1,222 thousand (EUR 1,873 thousand in 2019). Interest expenses on lease liabilities are presented in financial expenses in the notes under ”Financial income and expenses”.

EUR 1.856 (1.673) thousand was recognised as expenses from low-value and short leases during the financial year. The total cash flow leases amounted to EUR 2,507 (2,848) thousand and from land leases to EUR 3,117 (3,624) thousand.

The Company has no expenses related to variable rents that are not included in lease liabilities. The company also has no sublease of right-of-use assets or sale and leaseback.

29. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2020	2019
Loans from financial institutions	49 454	54 706
Debts on shares in unsold housing company shares	13 185	32 840
Instalment debts	259	554
Total	**62 898**	**88 100**

Guarantees	2020	2019
Real-estate mortgages	9 380	9 380
Pledges	22 938	60 470
Absolute guarantees	299	327
Total	**32 618**	**70 178**

Contract guarantees	2020	2019
Production guarantees	48 069	41 190
Warranty guarantees	22 508	17 649
RS guarantees	20 944	34 999
Payment guarantees	2 011	4 085
Total	**93 531**	**97 923**

Liability to adjust value added tax (VAT) on property investments	2020	2019
Liability to adjust VAT	2 257	2 616

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.

30. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

Company	Country of domicile	Holding, %	Share of votes, %
Parent company Lehto Group Plc	**Finland**		
Lehto Tilat Oy	Finland	100 %	100 %
Lehto Asunnot Oy	Finland	100 %	100 %
Remonttipartio Oy	Finland	100 %	100 %
Lehto Components Oy	Finland	100 %	100 %
Insinööritoimisto Mäkeläinen Oy	Finland	100 %	100 %
Lehto Korjausrakentaminen Oy	Finland	100 %	100 %
Kiinteistö Oy Ylivieskan Arvokiinteistö	Finland	80 %	80 %
Kiinteistö Oy Oulun Eteläkeskus	Finland	100 %	100 %
Lehto Bygg Ab	Sweden	100 %	100 %
Lehto Sverige Ab	Sweden	100 %	100 %

A summary of financial information on subsidiaries with a substantial non-controlling interest

The Group has no subsidiaries with a substantial non-controlling interest.

31. RELATED PARTY TRANSACTIONS

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. The Group didn't have any transactions with associated companies and joint ventures.

Transactions with related parties

	Sales 2020	Sales 2019	Purchases 2020	Purchases 2019
Key personnel and their controlled entities	75 538	30 884	6 201	4 595
Total	**75 538**	**30 884**	**6 201**	**4 595**

	Receivables 31 Dec. 2020	Receivables 31 Dec. 2019	Liabilities 31 Dec. 2020	Liabilities 31 Dec. 2019
Key personnel and their controlled entities	2 301	4 475	641	19
Total	**2 301**	**4 475**	**641**	**19**

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.

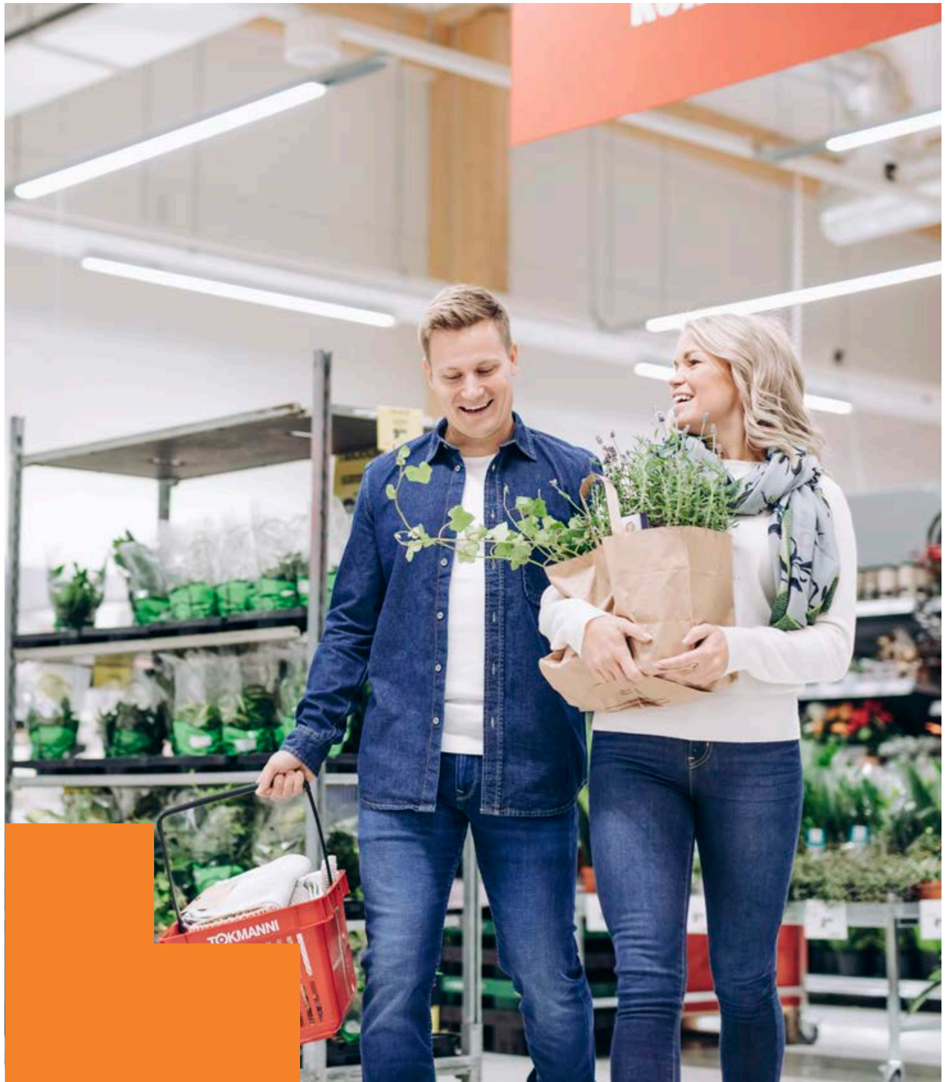
The most significant part of the sales to related parties consists of the sale of apartments and business premises to NREP Oy or companies owned by it or funds managed by it. Mikko Räsänen, a member of Lehto's Board of Directors, is a shareholder in NREP Oy and Chairman of the Board. Sales to NREP Oy or its controlled and influential entity totalled approximately EUR 76 million.

Purchases from related parties mainly consist of the rental of work machines and equipment from Lehto Invest Oy, a company controlled by CEO Hannu Lehto. These purchases amounted to EUR 2.7 million. Lehto also buys design services from Arkkitehtitoimisto Jorma Paloranta Oy, which is CFO Veli-Pekka Paloranta's influential community. The amount of these purchases was EUR 164 thousand. In addition, Lehto purchases building technology design and maintenance services from Elvak Oy, which is a company controlled by the company's CEO Hannu Lehto's son. The amount of these purchases was EUR 3.2 million.

Management salaries and remuneration

	2020	2019
Chief Executive Officer, CEO		
Hannu Lehto	115	126
Other management	1 160	1 336
Total	**1 275**	**1 463**

Members of the Board of Directors	**2020**	**2019**
Seppo Laine, chairman (member of BoD since March 29, 2019)	76	41
Mikko Räsänen	40	49
Anne Korkiakoski (since March 29, 2019)	41	40
Helena Säteri (since April 14, 2020)	35	-
Raimo Lehtiö (since April 14, 2020)	35	-
Martti Karppinen (until April 14, 2020)	8	96
Pertti Korhonen (until April 14, 2020)	4	50
Sakari Ahdekivi (until March 29, 2019)	-	9
Päivi Timonen (until March 29, 2019)	-	9
Total	**240**	**293**



Income statement for parent company, FAS

	1 Jan - 31 Dec 2020	1 Jan – 31 Dec 2019
Net sales	9 266	10 541
Other operating income	17	919
Personnel expenses		
Salaries and fees	-3 614	-4 075
Personnel expenses		
Pension costs	-518	-716
Indirect employee costs	-109	-109
Depreciation according to plan and impairment	-1 123	-790
Other operating expenses	-4 583	-4 522
Operating profit/loss	**-665**	**1 248**
Financial income and expenses		
Income from holdings in Group companies		25
Interest and other financial income		
From Group companies	462	2 369
From others	173	22
Interest and other financial expenses		
To Group companies	-7	-10
To others	-3 380	-2 083
Financial income and expenses, total	*-2 751*	*322*
Profit / loss before appropriations and taxes	**-3 416**	**1 570**
Appropriations		
Group contribution	1 451	-1 669
Profit/loss before taxes	**-1 965**	**-99**
Taxes		0
Profit / loss for the financial year	**-1 965**	**-99**

Balance Sheet for the parent company, FAS

ASSETS	31 Dec 2020	31 Dec 2019
Non-current assets		
Intangible assets	2 025	2 281
Machinery and equipment	137	402
Holdings in Group companies	81 698	80 840
Other shares and investments	757	757
Non-current assets, total	**84 617**	**84 279**
Current assets		
Inventories	83	83
Non-current receivables		
Receivables from Group companies	2 691	1 229
Loan receivables	163	
Current receivables		
Trade receivables	8	
Receivables from Group companies	7 772	51 749
Loan receivables	252	
Other receivables	10 011	14
Adjusting entries for assets	183	259
Financial securities	314	313
Cash and cash equivalents	103 201	56 429
Current assets total	**124 679**	**110 075**
ASSETS TOTAL	**209 296**	**194 354**

EQUITY AND LIABILITIES	31 Dec 2020	31 Dec 2019
Equity		
Share capital	100	100
Invested non-restricted equity reserve	91 655	71 335
Retained earnings	-3 126	-2 516
Profit for the financial year	-1 965	-99
Equity, total	**86 664**	**68 820**
Liabilities		
Non-current liabilities		
Other liabilities	78	
Non-current liabilities, total	*78*	
Current liabilities		
Loans from financial institutions	39 000	54 050
Trade payables	873	533
Liabilities to Group companies	81 426	69 582
Other liabilities	360	290
Adjusting entries for liabilities	894	1 080
Current liabilities, total	*122 553*	*125 535*
Liabilities, total	**122 632**	**125 535**
EQUITY AND LIABILITIES TOTAL	**209 296**	**194 354**

Cash Flow Statement for the parent company, FAS

	31 Dec 2020	31 Dec 2019
Cash flow from operating activities		
Result for the financial year	-3 416	1 570
Adjustments:		
Depreciation according to plan and impairment	1 123	790
Gain on sale of non-current assets		-878
Financial income and expenses	2 751	-322
Changes in working capital:		
Change in trade and other receivables	-9 818	-67
Change in trade and other payables	29	-720
Interest paid and other financial expenses	-3 474	-1 817
Interests received from operations	549	2 279
Income taxes paid		-36
Net cash from operating activities	**-12 255**	**798**
Cash flow from investments		
Investments in intangible and tangible assets	-603	-1 682
Investments in other investments	-41 196	-1 037
Repayment of loan receivables	1 050	600
Loans granted	-3 278	-10 970
Sales of associated companies		1 658
Net cash from investments	**-44 027**	**-11 432**

	31 Dec 2020	31 Dec 2019
Cash flow from financing		
Loans drawn	340	60 000
Loans repaid	-15 115	-26 200
Change in Group financing	99 690	7 267
Group contribution	-1 669	-800
Dividends paid	-7	-13 995
Share issue paid	20 321	
Repurchase of own shares	-504	
Net cash used in financing activities	**103 055**	**26 272**
Change in cash and cash equivalents (+/-)	**46 773**	**15 638**
Cash and cash equivalents at 1 Jan.	56 742	41 104
Cash and cash equivalents at 31 Dec.	**103 515**	**56 742**

Notes to the Financial Statements for the parent company

Measurement and timing principles

Inventories are measured at variable cost by applying the FIFO principle and the lowest value principle pursuant to Chapter 5, Section 6(1) of the Finnish Accounting Act.

Depreciable fixed assets are measured at variable cost and depreciated according to plan.

Bases of depreciation

Machinery and equipment	3 - 5 years straight-line depreciation
Intangible rights	3 - 5 years straight-line depreciation
Other long-term expenditure	3 years straight-line depreciation

No changes in the bases of depreciation

NOTES TO THE INCOME STATEMENT

Net sales by business area	2020	2019
Group internal service charges	9 144	10 319
Other net sales, internal	113	218
Other net sales, external	9	4
Total	**9 266**	**10 541**

Auditors' fees	2020	2019
Statutory auditing	127	61
Certificates and statements		1
Tax services	5	6
Other services	56	3
Total	*188*	*71*

Financial income and expenses	2020	2019
Dividend income from Group companies		25
Interest income from Group companies	462	2 369
Interest income from others	173	22
Interest costs on intra-Group liabilities	-7	-10
Interest costs to others	-1 971	-1 319
Other financial expenses	-1 408	-764
Total	**-2 751**	**322**

Taxes	2020	2019
Current taxes		0
Total		**0**

NOTES ON BALANCE SHEET ASSETS

Intangible rights	2020	2019
Acquisition cost at 1 Jan.	1 256	698
Increases	9	558
Acquisition cost at 31 Dec.	**1 265**	**1 256**
Accumulated depreciation at 1 Jan.	-731	-471
Depreciation and amortisation	-264	-260
Accumulated depreciation at 31 Dec.	**-995**	**-731**
Book value at 1 Jan.	526	228
Book value at 31 Dec.	**271**	**526**

Other long-term expenditure	2020	2019
Acquisition cost at 1 Jan.	1 722	1 425
Increases	1 357	297
Acquisition cost at 31 Dec.	**3 080**	**1 722**
Accumulated depreciation at 1 Jan.	-738	-523
Depreciation and amortisation	-587	-216
Accumulated depreciation at 31 Dec.	**-1 325**	**-738**
Book value at 1 Jan.	984	903
Book value at 31 Dec.	**1 754**	**984**

Advanced payments for intangible assets	2020	2019
Acquisition cost at 1 Jan.	771	0
Increases	0	771
Decreases	-771	0
Acquisition cost at 31 Dec.	**0**	**771**
Book value at 1 Jan.	771	0
Book value at 31 Dec.	**0**	**771**

Machinery and equipment	2020	2019
Acquisition cost at 1 Jan.	1 256	1 200
Increases	8	55
Acquisition cost at 31 Dec.	**1 264**	**1 256**
Accumulated depreciation at 1 Jan.	-855	-541
Depreciation and amortisation	-272	-314
Accumulated depreciation at 31 Dec.	**-1 127**	**-855**
Book value at 1 Jan.	400	659
Book value at 31 Dec.	**136**	**400**

Other tangible assets	2020	2019
Acquisition cost at 1 Jan.	1	1
Acquisition cost at 31 Dec.	**1**	**1**
Book value at 1 Jan.	1	1
Book value at 31 Dec.	**1**	**1**

Investments	2020	2019
Acquisition cost at 1 Jan.	81 692	28 201
Increases	858	54 270
Decreases	0	-780
Acquisition cost at 31 Dec.	**82 550**	**81 692**
Accumulated amortisation at 1 Jan.	-95	-95
Amortisation		0
Accumulated amortisation at 31 Dec.	**-95**	**-95**
Book value at 1 Jan.	81 596	28 106
Book value at 31 Dec.	**82 454**	**81 596**

Non-current receivables from Group companies	2020	2019
Loan receivables	2 691	1 229
Total	**2 691**	**1 229**

EUR 1,000

Current receivables from Group companies	2020	2019
Trade receivables	179	65
Loan receivables	424	724
Other receivables	1 826	722
Group limit	5 343	50 238
Total	**7 772**	**51 749**

Essential items included in adjusting entries for assets	2020	2019
Other adjusting entries for assets	183	259
Total	**183**	**259**

NOTES ON BALANCE SHEET LIABILITIES

	2020	2019
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	**100**	**100**
Invested non-restricted equity reserve at 1 Jan.	71 335	71 335
Issue of shares	20 321	
Invested non-restricted equity reserve at 31 Dec.	**91 655**	**71 335**
Retained earnings at 1 Jan.	-2 516	-4 196
Retained earnings	-99	15 675
Distribution of dividends	-7	-13 995
Repurchasing own shares	-504	
Retained earnings at 31 Dec.	**-3 126**	**-2 516**
Profit/loss for the financial year	**-1 965**	**-99**
Equity, total	**86 664**	**68 820**

Statement of distributable funds	2020	2019
Invested non-restricted equity reserve	91 655	71 335
Retained earnings	-3 126	-2 516
Profit/loss for the financial year	-1 965	-99
Total	**86 564**	**68 720**

Liabilities to Group companies	2020	2019
Trade payables	1	87
Other payables	0	42 865
Group limit	81 425	26 630
Total	**81 426**	**69 582**

Essential items included in adjusting entries for liabilities	2020	2019
Holiday pay debt with related costs	446	500
Non-wage labour cost debt	183	227
Interest debt	265	352
Total	**894**	**1 080**

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2020	2019
Loans from financial institutions	39 000	50
Total	**39 000**	**50**
Guarantees		
Pledges	10 000	0
Absolute guarantees	214	238
Total	**10 214**	**238**

Amount of credit limits	2020	2019
Credit limits available	39 003	75 005
Credit limits in use	39 003	54 005
Credit limits outstanding	**0**	**21 000**
Guarantee limits available	104 490	196 175
Guarantee limits in use	90 688	98 272
Guarantee limits outstanding	**13 802**	**97 903**

Guarantees given on behalf of other Group companies	2020	2019
Guarantees given and other commitments	36 174	81 177
Leasing agreements not included in balance sheet		
Expiring in 12 months	38	56
Expiring in more than 12 months	48	90
Total	**87**	**146**
Lease liabilities		
Construction leases, expiring in 12 months	907	1 190
Construction leases, expiring in more than 12 months	1 992	3 257
Total	**2 899**	**4 446**

Notes on personnel and members of administrative personnel

Average number of company personnel at the end of the financial year	2020	2019
Salaried employees	69	82
Total	**69**	**82**

Remuneration of the CEO and members of the Board of Directors are specified in note ”Related party transactions” to the consolidated financial statements.

Board of Directors’ proposal for the distribution of profits

The parent company’s distributable funds on the balance sheet of 31 December 2020 are EUR 86,564,458.70, of which the operating result is EUR -1,964,562.84.

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

Signatures to the Annual Report and Financial Statements

Vantaa, 17 February 2021

Seppo Laine
Chairman of the Board of Directors

Raimo Lehtiö
Member of the Board of Directors

Mikko Räsänen
Member of the Board of Directors

Anne Korkiakoski
Member of the Board of Directors

Helena Säteri
Member of the Board of Directors

Hannu Lehto
CEO

The Auditor’s Note

A report on the audit performed has been issued today.

Oulu, 17 February 2021

KPMG Oy Ab
Audit firm

Pekka Alatalo
APA

Group key figures

	2020	2019 [2]	2018 [2]	2017 [2] [3]	2016 [2]
Net sales, EUR million	544,7	667,7	721,5	597,6	361,8
Net sales, change from the previous year %	-18,4 %	-7,5 %	20,7 %	65,2 %	31,3 %
Operating result, EUR million	-2,9	-41,8	37,2	64,6	40,4
Operating result, as % of net sales	-0,5 %	-6,3 %	5,2 %	10,8 %	11,2 %
Result for the financial year, EUR million	-8,2	-35,7	28,7	51,6	31,9
Result for the financial year, as % of net sales	-1,5 %	-5,4 %	4,0 %	8,6 %	8,8 %
Return on equity (ROE), %	-7,0 %	-26,0 %	18,3 %	38,8 %	42,8 %
Return on investments (ROI), %	-0,9 %	-14,3 %	16,0 %	40,6 %	44,5 %
Equity ratio, %	38,7 %	29,6 %	42,7 %	56,2 %	60,4 %
Gearing, %	40,0 %	49,9 %	21,3 %	11,7 %	9,4 %
Net gearing ratio, %	7,0 %	115,9 %	38,5 %	-20,6 %	-44,2 %
Gross expenditure on assets, EUR million	2,0	7,7	15,9	4,5	7,6
Personnel during the year, average	1 115	1 454	1 457	1 013	566
Personnel at Dec 31	1 034	1 274	1 552	1 184	747
Equity / share	1,42	1,59	2,30	2,13	1,64
Earnings per share, issued-adjusted, EUR, basic	-0,12	-0,51	0,41	0,73	0,49
Earnings per share, issued-adjusted, EUR, diluted	-0,11	-0,51	0,41	0,73	0,49
Average number of shares during the year, issued-adjusted, basic	71 012 014	70 597 352	70 541 661	70 541 661	65 475 497
Average number of shares during the year, issued-adjusted, diluted	71 330 955	70 752 453	70 698 904	70 761 533	65 483 376
Number of shares, issue-adjusted, at the end of the year	87 089 901	70 612 735	70 541 661	70 541 661	70 541 661
Market value of share at Dec 31, EUR million	117,6	137,0	247,6	737,5	593,6
Share turnover, issue-adjusted, shares	45 969 542	54 836 449	51 905 771	19 781 317	14 425 832
Share turnover out of average number of shares, %	64,7 %	77,7 %	73,6 %	28,0 %	22,0 %
Share prices, issued-adjusted, EUR					
Highest price, EUR	2,17	4,40	11,71	11,78	8,41
Lowest price, EUR	0,98	1,22	3,32	8,08	4,56
Average price, EUR	1,37	2,20	7,54	10,12	6,63
Price at Dec 31, EUR	1,35	1,94	3,51	10,45	8,41
Dividend / share, issue-adjusted, EUR [1]	-	-	0,20	0,28	0,18
Issue-adjusted dividend payout ratio, % [1]	-	-	48,7 %	38,4 %	37,3 %
Effective dividend yield % [1]	-	-	5,6 %	2,7 %	2,2 %
Price / Earnings	-11,75	-3,84	8,65	14,33	17,27

[1] Year 2020 dividend proposal [2] Share-based key figures are issue-adjusted due share issue in 2020 [3] Restated according IFRS 15

Definitions of key figures

Earnings per share		$\frac{\text{Result for the financial year}}{\text{Issue-adjusted average number of outstanding shares during the period}}$
Equity / share		$\frac{\text{Equity}}{\text{Issue-adjusted number of outstanding shares at the end of period}}$
Dividend / share		$\frac{\text{Dividend}}{\text{Issue-adjusted number of outstanding shares on Dec 31}}$

Alternative performance measures by ESMA

The company has taken into consideration new guidelines of the European Securities and Markets Authority (ESMA) regarding Alternative Performance Measures that were entered into force on July 3, 2016. Key figures used by the company are well-known figures, which are mainly derived from the result and balance sheet. Alternative performance measures may not be considered as a substitute for measures of performance in accordance with the IFRS.

Operating result		Result before financial items and taxes
Return on equity (ROE), %	100 x	$\frac{\text{Result for the financial year}}{\text{Equity (average)}}$
Return on investments (ROI), %	100 x	$\frac{\text{Result before taxes + Interest and other financial expenses}}{\text{Balance sheet total - Non-interest-bearing liabilities (average)}}$
Equity ratio, %	100 x	$\frac{\text{Equity}}{\text{Balance sheet total - Advances received}}$
Equity ratio without IFRS 16, %	100 x	$\frac{\text{Equity without IFRS 16 effect}}{\text{Balance sheet total - Advances received}}$
Gearing, %	100 x	$\frac{\text{Non-current liabilities}}{\text{Equity + Provisions}}$
Net gearing ratio, %	100 x	$\frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity}}$
Net gearing ratio without IFRS 16, %		$\frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity excluding IFRS 16 effect}}$
Interest-bearing liabilities		Non-current and current financial liabilities (including lease liabilities)
Non-interest-bearing liabilities		Deferred tax liabilities + Provisions + Other non-current liabilities + Advances received + Trade and other payables + Current income tax liabilities
Dividend payout ratio, %	100 x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Effective dividend yield %	100 x	$\frac{\text{Dividend per share}}{\text{Share price on Dec 31}}$
Price / Earnings (P/E)		$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings per share}}$

Shares and Shareholders

At balance sheet date, the number of shares is 87,339,410. Outstanding number of shares is 87,089,901 and the company held 249,509 treasury shares. The share capital is EUR 100,000. The company has one share class and all shares are of the same class. The company's shares have no par value, and the Articles of Association do not specify the minimum or maximum value of shares or share capital. Each share entitles its holder to one vote and to an equal amount of dividend. The company held no own shares.

SHAREHOLDERS 31 DECEMBER 2020

	Number of shares	%
Lehto Invest Oy	33,914,760	38.8%
Kinnunen Mikko	1,446,454	1.7%
Saartoala Ari	1,000,485	1.1%
Sr eQ Pohjoismaat Pienyhtiö	947,045	1.1%
Danske Invest Finnish Equity Fund	915,718	1.0%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	900,000	1.0%
Keskinäinen Työeläkevakuutusyhtiö Elo	711,309	0.8%
Veikkolainen Paavo	700,073	0.8%
OP-Henkivakuutus Oy	690,235	0.8%
Sr Säästöpankki Pienyhtiöt	651,512	0.7%
10 LARGEST SHAREHOLDERS	**41,877,591**	**47.9%**
Nominee-registered	7,273,031	8.3%
Other shareholders	38,188,788	43.7%
TOTAL	**87,339,410**	**100.0%**

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share-holders	%
1 - 100	206,164	0.2%	4,224	23.5%
101 – 1,000	3,666,974	4.2%	8,684	48.2%
1,001 – 10,000	13,669,373	15.7%	4,523	25.1%
10,001 – 100,000	13,732,527	15.7%	538	3.0%
100,001 – 1,000,000	13,697,354	15.7%	42	0.2%
over 1,000000	42,367,018	48.5%	4	0.0%
TOTAL	**87,339,410**	**100.0%**	**18,015**	**100.0%**
where of Nominee-registered	7,273,031	8.3%	11	6.0%

SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share-holders	%
Companies	42,279,746	48.4%	712	4.0%
Financial and insurance institutions	9,651,150	11.1%	21	0.1%
Public sector organizations	1,638,019	1.9%	3	0.0%
Households	32,994,496	37.8%	17,205	95.5%
Non-profit organizations	213,216	0.2%	31	0.2%
Foreign countries	562,783	0.6%	32	0.2%
TOTAL	**87,339,410**	**100.0%**	**18,015**	**100.0%**
where of Nominee-registered	7,273,031	8.3%	11	0.1%

Auditor´s Report

Lehto Group Plc

Auditor's Report

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lehto Group Plc (business identity code 2235443-2) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Net sales: revenue recognition

(Refer to Accounting principles for the consolidated financial statements, section ”Revenue recognition principles” and notes 2, 18,19 and 25 to the consolidated financial statements)

Key audit matters

- The nature of operations of Lehto Group comprises the sale of construction contracts, related services, new apartments and real estate properties within the confines of a number of types of customer projects. The terms of delivery and invoicing of these deliverables are set in agreements entered into with customers.
- The amount and timing of revenue recognition is dependent on the content of different types of customer projects and related contracts. The revenue recognition principles are described under Accounting principles for the consolidated financial statements. Factors of uncertainty related to revenue recognition for the Group concern principally the property construction projects for which revenue is recorded over time.
- The project revenue recognized over time is based on project-specific margin projections, which involve management judgement. Revenue recognition necessarily entails the balances of receivables and received advance payments arising from contracts with customers, which constitute significant components of the consolidated balance sheet.

Audit approach to the matters

- We evaluated the internal control over revenue and tested the effectiveness of controls over the accuracy of revenue.
- We considered significant customer contracts entered into during the financial year and evaluated adherence to the company’s internal operation principles. We evaluated the definition, classification and recording of transactions arising from the contracts in relation to both Group accounting principles applied in the preparation of consolidated financial statements as well as to provisions governing the preparation of financial statements.
- In regard to invoicing and revenue recognition, we evaluated the accuracy of entries recorded in the Group’s enterprise resource planning system. We performed project-based substantive audit procedures on the project revenue calculations with the objective of assessing the accuracy of both the said calculations and profit margin recognized as well as the balances of receivables and received advance payments arising from contracts with customers presented in the financial statements.

Valuation of inventories

(Refer to Accounting principles for the consolidated financial statements, section ”Inventories” and note 18 to the consolidated financial statements)

Key audit matters

- The inventory balance comprises 35 % of the total assets in the consolidated balance sheet.
- A significant proportion of the inventory balance is related to the capitalised cost of unfinished projects, which is based on the project-specific information produced by the enterprise resource planning system.

Audit approach to the matters

- We considered both the integrity of operations of the enterprise resource planning system, material to the reporting of Group companies’ inventories, as well as the effectiveness of related general IT controls.
- We tested the internal controls in place over the cost monitoring of projects and performed substantive audit procedures aimed at assessing the accuracy of inventory valuation.

Responsibilities of the Board of Directors and the CEO for the Financial Statements

The Board of Directors and the CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company’s and the group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting for the financial year ended 31 December 2013 and our appointment represents a total period of uninterrupted engagement of 8 years. Lehto Group Plc became a public interest entity on 28 April 2016. We have been acting as the auditors of the company for the entirety of the duration that it has been a public interest entity.

Other Information

The Board of Directors and the CEO are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Oulu, 17 February 2021

KPMG Oy Ab

Pekka Alatalo
Authorised Public Accountant, KHT

Corporate Governance Statement 2020

Lehto Group Plc

Corporate Governance Statement 2020

Introduction

Corporate governance at Lehto Group Plc (hereinafter "Lehto Group" or "Company") is based on the laws in force and the Company's Articles of Association. Lehto Group follows the rules and regulations of Nasdaq Helsinki Ltd (hereinafter "Nasdaq Helsinki" or the "Helsinki Stock Exchange") and the Finnish Corporate Governance Code 2020 (hereinafter "Corporate Governance Code") issued by the Securities Market Association. The Corporate Governance Code is available in its entirety on the website of the Securities Market Association at **www.cgfinland.fi**.

On 19 February 2021, the Company's Board of Directors approved this Corporate Governance Statement (hereinafter "CG Statement"), which was drawn up separately from the report by the Board of Directors. This CG statement will be published on Lehto Group's website at **www.lehto.fi/en**.

Descriptions concerning corporate governance

The responsibility for Lehto Group's corporate governance has been divided in accordance with the Limited Liability Companies Act between its General Meeting of Shareholders, the Board of Directors and the CEO. Shareholders exercise their rights mainly in the General Meeting of Shareholders, which is normally convened by the Company's Board of Directors. Furthermore, a General Meeting of Shareholders must be held if so required in writing by the Company's auditor or shareholders representing at least one tenth of all shares issued by the Company.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is Lehto Group's highest decision-making body. According to the Limited Liability Companies Act, the shareholders exercise their power of decision in matters related to the Company at the General Meeting of Shareholders. The General Meeting of Shareholders decides on matters required by the Limited Liability Companies Act and the Company's Articles of Association. The shareholders participate in the General Meeting of Shareholders either personally or through a representative. Each share entitles its holder to one vote.

The Annual General Meeting is held annually on the date determined by the Board of Directors, within six months from the termination of the financial year. In accordance with the Limited Liability Companies Act and the Articles of Association, the Annual General Meeting decides on matters that fall within its competence, such as adoption of the financial statements, the use of the profit shown on the balance sheet, and the appointment of the members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting also decides on the discharge of the Members of the Board of Directors and the Chief Executive Officer from liability. An Extraordinary General Meeting shall be held if the Board of Directors considers it necessary or if the Company's auditor or shareholders whose shares represent at least one tenth of all shares issued by the Company so demand in writing in order for a given matter to be dealt with.

In accordance with the Company's Articles of Association, a written notice of a General Meeting of Shareholders shall be given to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the shareholders' meeting, however, no later than nine (9) days prior to the record date of the General Meeting of Shareholders. A notice of a General Meeting of Shareholders shall be given by publishing it on the Company's website or in some other verifiable written form.

BOARD OF DIRECTORS

The Company's Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors shall be responsible for the appropriate arrangement of the control of the Company's accounts and finances. The Board of Directors or a member of the Board of Directors shall not comply with a decision of the General Meeting of Shareholders or the Board of Directors where it is invalid owing to being contrary to the Limited Liability Companies Act or the Company's Articles of Association. The General Meeting of Shareholders elects the members of the Board of Directors.

The Board of Directors is elected annually at the Annual General Meeting. By virtue of the Company's Articles of Association, the Company has a Board of Directors which consists of 3–8 ordinary members. The Board members' term of office shall expire at the end of the next Annual General Meeting following their election.

Composition and operations of the Board of Directors

The Board of Directors has drawn up a charter of the Board of Directors, which defines the Board's key duties and operating principles.

The Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors, among its other duties, controls and supervises the Company's operative management, appoints and discharges the CEO, determines the duties and conditions of employment of the CEO, approves the strategic objectives and the principles of risk management for the Company and its businesses and ensures the proper operation of the management system. Furthermore, the Board of Directors shall prepare together with the Shareholders' Nomination Committee a Remuneration Policy of the Company and presents it to the Annual General Meeting for discussion as well as prepares and presents the Remuneration Report for the Annual General Meeting. The Board of Directors also ensures that the Company has defined the operating principles for internal control and that the Company monitors the functioning of the internal control. The Board of Directors approves the policies and guidelines for internal control, risk management and corporate governance, as well as the Company's information dissemination policy. Based on the Company's strategy, the Board of Directors approves the action plan and budget and supervises their implementation. Furthermore, the Board of Directors annually approves the total amount and priorities of investments in the Company's business operations and decides on major and strategically important investments, acquisitions and divestments. The Board of Directors confirms the Company's ethical values and working methods and monitors their implementation. The Board of Directors also defines the Company's dividend policy on the basis of which it submits a dividend proposal to the Annual General Meeting for consideration.

The Company aims to ensure that its Board of Directors has, as a whole, and taking into account its duties, sufficient and versatile expertise and experience. In the preparation of the proposal of the Shareholders' Nomination Committee for the composition of the Board of Directors, particular attention shall be paid to the requirements set by the company's operations and development stage. Furthermore it shall be ensured that the Board of Directors and its members have sufficient expertise, know-how and experience to meet the requirements of the company. A person elected as a Board member must have the competence required by the position and the possibility to devote a sufficient amount of time to attending to the duties. The number of Board members and the composition of the board of directors shall be such that they enable the Board of Directors to see to its duties efficiently. For the evaluation of the diversity and composition of the Board of Directors, individuals who have been proposed as members shall, in confidence and as instructed by the Company, provide the information required to evaluate their competence and the amount of time they can devote to the task to the Shareholders' Nomination Committee.

The Board of Directors shall also evaluate the independence of its members. The majority of the Board members shall be independent of the Company. Furthermore, at least two members who are independent of the Company shall also be independent of the significant shareholders of the Company. Board members' independence shall be evaluated on an annual basis.

The Board of Directors elected by the Annual General Meeting of 14 April 2020 consisted of Seppo Laine, Mikko Räsänen, Anne Korkiakoski, Helena Säteri, and Raimo Lehtiö. Seppo Laine has acted as Chairman of the Board of Directors. During the financial year 2020, the Board of Directors had a total of 22 meetings, five of which was conducted by phone or email. The average attendance rate of Board members was 99 per cent.

Basic information on Board members, their independence, remuneration, holdings and attendance in Board meetings is provided in the following tables.

MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Year of birth	Education	Independence of the Company	Independence of significant shareholders
Seppo Laine	Chairman of the Board of Directors	1953	APA	Yes	Yes
Mikko Räsänen	Member of the Board of Directors	1978	M.Sc. (Econ.)	Yes	Yes
Anne Korkiakoski	Member of the Board of Directors	1964	M.Sc. (Econ.)	Yes	Yes
Helena Säteri [2]	Member of the Board of Directors	1956	M.Sc. (Tech.)	Yes	Yes
Raimo Lehtiö [2]	Member of the Board of Directors	1957	M.Sc. (Tech.), MBA	Yes	Yes
Martti Karppinen [1]	Chairman of the Board of Directors	1947	M.Sc. (Tech.)	Yes	Yes
Pertti Korhonen [1]	Member of the Board of Directors	1961	M.Sc. (Tech.)	Yes	Yes

[1] A member of the Board of Directors until the end of the Annual General Meeting on 14 April 2020.

[2] A member of the Board of Directors since the Annual General Meeting 14 April 2020.

BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES 31 DECEMBER 2020

Name	No. of shares held	Shareholding ratio
Seppo Laine	73,427	0.08%
Mikko Räsänen	25,030	0.03%
Anne Korkiakoski	48,845	0.06%
Helena Säteri	14,223	0.02%
Raimo Lehtiö	15,053	0.02%
Board of Directors in total	**176,578**	**0.20%**

REMUNERATION OF THE MEMBERS OF THE BOARD (INCLUDING REMUNERATION OF AUDIT COMMITTEE), SERVICES SOLD TO THE COMPANY AND ATTENDANCE IN MEETINGS

Name	Remuneration for 2020, paid as shares, EUR	Remuneration for 2020, paid as cash, EUR	Sale of services to the Company in 2020, EUR	Attendance in Board meetings
Seppo Laine	25,299	51,150	-	22/22
Mikko Räsänen	12,649	27,400	-	21/22
Anne Korkiakoski	12,649	28,350	-	22/22
Helena Säteri [2]	12,649	22,800	-	16/16
Raimo Lehtiö [2]	12,649	22,800	-	16/16
Martti Karppinen [1]	-	7,500	-	6/6
Pertti Korhonen [1]	-	4,150	-	6/6
Hallitus yhteensä	**75,895**	**164,150**	**-**	**99%**

[1] A member of the Board of Directors until the end of the Annual General Meeting on 14 April 2020.

[2] A member of the Board of Directors since the Annual General Meeting 14 April 2020.

Presentation of Board members

Seppo Laine has been a member of the Board of Directors since 2019. He acts as Chairman of the Board of Directors in Cor Group Ltd, Pohjaset Ltd, Trevia asset Management Ltd and Fysiopalvelu Easymove Ltd. Laine has previously in his career worked as the CFO and the Chairman of the Board of Directors in Elektrobit Plc and as the Director of Oulu regional office and International Partner in Auditing Company Ernst & Young. Laine is an Authorised Public Accountant.

Mikko Räsänen has been a member of the Board of Directors since 2013. He has experience in Nordic property markets, property development, property investment and the financing of property transactions. Räsänen is a co-owner and Chairman of the Board of the property investment company NREP Oy as well as the Chairman or a member of the Board in several companies that form part of NREP's investment portfolio. Räsänen joined NREP Oy in 2006. He previously worked as a management consultant in the Boston Consulting Group in 2004–2006. Räsänen holds the degree of Master of Science in Economics.

Anne Korkiakoski has been a member of the Board of Directors since 2019. She is an expert in marketing and communication and acts as a member of the Board of Directors in several entities such as Lindström, University of Vaasa, Nordic Morning Group, Lunawood, and Irepse Ltd (Esperi). Earlier in her career Korkiakoski has acted as the Executive Vice President of Marketing and Communications at Kone Corporation and at Elisa Corporation and as the CEO and Partner in the Nordic advertisement and communication offices of Havas. Korkiakoski holds the degree of M.Sc. (Econ.).

Helena Säteri has graduated from the Helsinki University of Technology from the department of Machine engineering as a Master of Science in Technology and has worked within construction for 40 years, been engaged with board working for more than 15 years and acted in the state's corporate governance for more than 10 years and served in the Board of Directors of Tapiolan Lämpö Ltd since 2020. Prior to her retirement on 31 January 2020, she held the position of a Director General of the Ministry of the Environment.

Raimo Lehtiö is a Master of Science in Technology (Industrial Engineering and Management) and an MBA, graduated from the Helsinki University of Technology. During his career Mr. Lehtiö has acted in managerial positions in groups such as ABB and Scania and his latest position was a Managing Director of Scania South Africa (Pty) Ltd.

The memberships of the Board of Directors that ended during 2020

Martti Karppinen was a chairman of the Board of Directors since 2018 and the member of the Board of Directors since 2014 until the Annual General Meeting of the year 2020.

Pertti Korhonen was member of the Board of Directors since 2018 until the Annual General Meeting of the year 2020.

Statement on the implementation of the Board Diversity Policy 2020

In 2017, the Board of Directors confirmed that the Company's Board Diversity Policy shall be followed in the selection of the persons proposed as Board members. The implementation of the diversity policy will be monitored on an annual basis in connection with the Corporate Governance Statement.

In order to be able to comprehensively support and develop the Company's business, the composition of the Board of Directors shall be sufficiently diverse. When selecting the persons to be proposed as Board members a balance with regard to the educational background, professional skills, experience, nationality as well age and gender distribution of its members shall be considered. As a whole, the composition of the Board of Directors shall be such that the directors have sufficiently comprehensive competence, skills and experience. The Shareholders' Nomination Committee shall take into consideration the sufficient diversity of the Board when preparing the suggestion for the composition of the Board.

At the 2020 Annual General Meeting, the Shareholders' Nomination Committee proposed that Seppo Laine, Mikko Räsänen, and Anne Korkiakoski be re-elected as members of the Board of Directors. Furthermore, the Shareholders' Nomination Committee proposed that Helena Säteri and Raimo Lehtiö be elected to the Board. The proposed persons were elected to the Board. At its organisation meeting, Seppo Laine was elected as Chairman of the Board.

The defined diversity goal is well implemented in the Board of Directors. The Board includes members that have knowledge in commerce, law, and technology. The Board has members representing different ages, genders and educational backgrounds who most have strong expertise in the real estate business. The Board members additionally have experience in the megatrends identified by the Company, in international duties, the capacity to develop the Company and assess the views of parties that use the Company's services. According to the self-assessment of the Board of Directors, the members of the Board have been able to devote a sufficient amount of time to Board duties to ensure the Board's operating conditions.

BOARD COMMITTEES

The preparation of matters within the competence of the Board of Directors can be made more efficient in Board committees, allowing more extensive concentration on matters. The committees have no independent decision-making power, but they prepare issues which will be resolved by the Board. The Board of Directors remains responsible for the duties assigned to the Committee. The Committee shall regularly report its work to the Board of Directors. The reports shall include at least a summary of the matters addressed and measures proposed by the Committee. The Annual General Meeting decides on the remuneration of the members of the Board committees.

Audit Committee

The Audit Committee is tasked with preparing matters relating to the Company's financial reporting and control. The key duties and operating principles of the Committee are described below.

The main duties of the Audit Committee are:

- to monitor the financial statements reporting process
- to supervise the financial reporting process
- to monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- to review the description of the main features of the Company's internal control and risk management systems related to the financial reporting process
- to monitor the statutory audit of the financial statements and consolidated financial statements
- to evaluate the independence of the statutory auditor or auditing firm, particularly the provision of related services to the Company
- to prepare a proposal for the election of an auditor.

The Company's Board of Directors shall nominate the Chairman and members of the Audit Committee. The Audit Committee consists of at least three members of the Board of Directors. At least one of them must have special expertise in accounting, bookkeeping or auditing. Board members to be elected as members of the Audit Committee must have extensive knowledge of Lehto Group's business operations and business segments and sufficient knowledge of accounting and accounting policies. In its organisational meeting of 14 April 2020, the Board of Directors elected Anne Korkiakoski (Chairman), Seppo Laine, and Mikko Räsänen as members of the Audit Committee. The members of the Committee are independent of the Company and its significant shareholders.

The Audit Committee convenes at least twice a year. In addition to the Committee members, the meetings shall be attended by the Company's CEO and Chief Financial Officer and, optionally, the Company's auditors. Furthermore, the Committee members may meet the external auditors without the operative management being present in such meetings. During the financial year 2020, the Audit Committee had four meetings and all members attended all meetings.

SHAREHOLDERS' NOMINATION COMMITTEE

The Annual General Meeting of Lehto Group Plc decided on 11 April 2017 to establish a Shareholders' Nomination Committee to prepare proposals regarding members of the Board of Directors and their remuneration for the Annual General Meeting. The main responsibility of the Nomination Committee is to ensure that the Board of Directors and its members have sufficient expertise, know-how and experience to meet the requirements of the company. The Nomination Committee shall adhere to current legislation, other provisions and regulations as well as the rules to which the company is subject.

The members of the shareholders' Nomination Committee shall comprise the representatives of the three biggest shareholders who have accepted the responsibility. The biggest shareholders shall be annually named with regard to the situation on the last September date of public trading organised by Nasdaq Helsinki Ltd on the basis of the company's shareholders' register, held by Euroclear Finland Ltd. Each of the three biggest shareholders shall nominate one representative for the Nomination Committee. Should someone opt out of the nomination right, the right is transferred to the next biggest shareholder in order who otherwise would not have the nomination right. The Chairman of the company's Board of Directors shall act as an expert member of the Committee without a right to vote.

Should a shareholder who is represented in the Nomination Committee sell over 50% of their shares relative to the situation at the time the shareholder's representative was elected and no longer belongs to the ten biggest shareholders of the company, said representative must resign from the Nomination Committee. The Shareholders' Nomination Committee must then elect a new member to replace the resigned member.

The new elected member shall be determined by the order of the shareholders such that the shareholder with the greatest number of owned shares without a representative in the Nomination Committee shall have the primary right to name a representative for the Committee. Should the shareholder opt out of the nomination right, the right is transferred to the next biggest shareholder in order who otherwise would not have the nomination right. The equity holdings shall be evaluated on the basis of the shareholders' register held by Euroclear Finland Ltd according to the time of resignation of the member of the Nomination Committee.

Otherwise, the term of office of a Committee member shall be valid until the last September date of public trading organised by Nasdaq Helsinki Ltd following the election.

The Nomination Committee shall have quorum when more than half of its members with a right to vote are present. The Nomination Committee cannot make a decision unless all its members have been offered the chance to take part in the discussion regarding the matter as well as the meeting.

The Nomination Committee shall prepare a proposal regarding the composition of the Board of Directors for the Annual General Meeting, which shall decide on the matter. When preparing the proposal, the Nomination Committee shall take into consideration the requirements of the Governance Code and the annual assessment of the Board. If necessary, the Nomination Committee can also listen to outside experts.

In 2020 the Shareholders' Nomination Committee consisted of Hannu Lehto (Lehto Invest Ltd), Mikko Kinnunen, and Esko Torsti (Ilmarinen Mutual Pension Insurance Company).

GROUP MANAGEMENT

CEO

The CEO is in charge of the day-to-day management of the company in accordance with the instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that the Company's accounting practices are in compliance with the law and that the financial matters are organised in a reliable manner. The CEO has a duty to provide the Board of Directors and its member(s) with any information that the Board of Directors may need in order to see to its duties.

The CEO may undertake measures that are unusual or extensive, considering the scope and nature of the Company's operations, only with the authorisation of the Board of Directors or if it is not possible to wait for a decision of the Board of Directors without causing essential harm to the Company's operations. In the latter case, the Board of Directors shall be notified of the measures as soon as possible.

Hannu Lehto, born 1963, has been Lehto Group's CEO since 2014. In 2008–2013, he was the CEO of the Company. Lehto is the Company's founding shareholder, and he has also acted as the Chairman of the Board of Directors in 2008–2014. In 2014–2016, he was a member of the Board of Directors. Lehto became the Company's shareholder through an arrangement in which the Company, in connection with its establishment, bought the entire share capital of the construction company Rakennusliike Lehto Oy. Hannu Lehto has worked in Rakennusliike Lehto Oy since its foundation in 1985, when he and Tapio Mustonen established a limited partnership by the name Rakennusliike Mustonen & Lehto Ky. Hannu Lehto is a Construction Engineer by education.

At the end of the financial period 2020 Hannu Lehto owns directly or indirectly 33,919,260 shares of the Company which is 38.90 per cent of the Company's shares.

Group's executive team

The CEO is supported by the Group's executive team which on 31 December 2020 consists of, in addition to CEO:

- **Veli-Pekka Paloranta**, CFO, Chief Financial Officer
- **Juha Höyhtyä**, EVP, Housing
- **Jaakko Heikkilä**, EVP, Business Premises
- **Timo Reiniluoto**, EVP, Business Support Services
- **Jukka Haapalainen**, EVP, Factory Production
- **Arto Tolonen**, CDO, Chief Development Officer
- **Kaarle Törrönen**, Vice President, Human Resources
- **Antti Asteljoki**, Chief Commercial Officer (since 1 September 2020)

The Group's executive team supports the CEO in duties falling within the CEO's competence, as well as their implementation and monitoring, particularly as regards business development, financing, asset management, internal control and risk management.

Veli-Pekka Paloranta, born 1972, has been the Chief Financial Officer in Lehto since November 2015. In 2000– 2015, he has worked in the JOT Automation and Elektrobit groups. During 2010-2015 he was the CFO of Bittium Plc (former Elektrobit Plc) and since 2020 he has acted as the Member of the Board of Directors and the Member of the Audit Committee in Bittium Plc. Paloranta holds the degree of Master of Science in Economics.

Juha Höyhtyä, born 1965, has been working for Lehto since 2019. He has a long experience of construction business. He has served altogether 24 years in Lemminkäinen in Finland as well as abroad. Previously he has acted as CEO of Telinekataja Oy, in which position he worked for approximately four years.

Jaakko Heikkilä, born 1971, has been employed by the Group since 2011. Prior to his current position as service area EVP, he served in the Group as Area Manager, Chief Business Officer and Deputy Managing Director of Rakennusliike Lehto. Previously, Heikkilä worked in construction tasks for the Ministry of Defence administrative sector and Finnish Customs as well as various managerial positions in production in the building sector. Heikkilä holds the degree of Master of Civil Engineering.

Timo Reiniluoto, born 1966, served from November 2014 to May 2017 as CEO of Lehto's subsidiary Rakennusliike Lehto Oy. From the beginning of March 2017, he has acted as EVP, Business Support Services at Lehto Group. He has 30 years' experience in various tasks in the construction sector, including as EVP and Head of Commercial Construction Southern Finland at Skanska. He also has ten years' work experience in Russia. In addition, Reiniluoto served as Board member of Oy Lautex Ab in 2006–2013. Reiniluoto holds the degrees of Master of Science in Technology and Hanken MBA in Real Estate Finance.

Jukka Haapalainen, born 1975, has been employed by Lehto since 2019. He has nearly 20 years of experience in versatile and demanding industrial development and management roles. Most recently he has worked for Nestor Cables Oy and Eastman Chemical Company.

Arto Tolonen, born 1966, has worked in various leadership positions in Nokia Networks for a development of business processes, product development, productization and product data management globally. In the University of Oulu, Tolonen established a new research and education stream for product management for faculty of technology, industrial engineering and management research unit within the last five years.

Kaarle Törrönen, born 1966, has served as Vice President, Human resources since 2018. Previously he has worked over 33 years in leading HR positions in The Finnish Defence Forces.

Antti Asteljoki, born 1974, is an experienced professional in the real estate industry who has worked in different managerial positions since 2004. Last he held the position of an executive in charge of housing business in Sato Plc.

DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM

Name	No. of shares held	Shareholding ratio
Veli-Pekka Paloranta	501,653	0.58%
Juha Höyhtyä	20,000	0.02%
Jaakko Heikkilä	650,073	0.74%
Timo Reiniluoto	35,887	0.04%
Jukka Haapalainen	-	-
Arto Tolonen	2,673	0.00%
Kaarle Törrönen	4,500	0.01%
Antti Asteljoki (since 1 September 2020)	-	-
Total	**1,204,713**	**1.38%**

The memberships of the Group's Executive Team that ended during 2019

Toni Kankare, born 1979, was a member of the Group's Executive Team until 31 August 2020. Kankare served as Chief Commercial Officer.

Ville Kettunen, born 1977, was a member of the Group's Executive Team until 30 June 2020. Until that he served as EVP, Social Care and Educational Premises.

Business operations management

The Group's operational business was during 2020 divided into two service areas: Business Premises and Housing. Both service areas are led by separate EVPs who, with the service area executive group, oversee the planning of the service area's products and services, production and sales as well as the general development of the service area. The EVP's report monthly to the CEO of the Group and to the service area steering group. The steering group includes the EVP of the service area, the CEO, CFO and the EVP of Business Support Services as well as other management if necessary.

The actual operative business of the company takes place in the subsidiaries of the company. Four of the subsidiaries are focused on the functions of the service areas, one is focused on industrial scale production, one in designing and planning and two for functions in the Swedish markets.

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, bookkeeping, coordination of financial affairs, legal, business development, sourcing and purchasing, communications, marketing and information management.

Main features of the internal control and risk management systems related to the financial reporting process

RISK MANAGEMENT

The purpose of risk management is to secure positive development of earnings of the Company and the continuation of the business by implementing risk management cost-effectively and systematically throughout the different businesses. Risk management is part of the Company's strategic and operative planning, daily decision-making process and internal control system. Business objectives, risks and risk management operations are combined through risk management as one chain of events.

The Company adheres to the risk management policy approved by the Board of Directors. Risk management contains all actions, which are connected to setting up targets, identification of risks, measurement, review, handling, reporting, follow-up, monitoring and reacting to risks.

In connection with the strategy process and annual planning, the CEOs of the Company and the EVPs of business areas review business risks which could prevent or endanger the achievement of the Group's strategic or profit targets. The service areas produce risk assessment reports for each business to support the strategy process. Strategic and operative risks are monitored through reporting by the businesses and considered by service area-specific steering groups that convene monthly.

The service areas must produce assessments of risks in their own units and provide action plans to manage risks as well as to report on measures taken including the stage and effectiveness of such measures.

The Company's CEO reports the identified risks concerning the Group as well as all planned and effected measures to control such risks to the Company's Board of Directors.

The aim of risk management is to:

- systematically and thoroughly identify and assess all major risks, which threaten the achievement of objectives, including risks related to business operations, property, agreements, competence, currencies, financing and strategy;
- optimise business opportunities and secure continuation of business;
- recognise and identify uncertainties and subsequently develop the prediction of risks and measures needed to manage risks;
- take only calculated and carefully assessed risks with respect to e.g. expanding the business, increasing market share and creating new businesses;
- avoid or minimise liability risks;
- ensure the safety of products, solutions and services;
- establish a safe working environment for the employees;
- minimise possibilities for unhealthy occurrences, crimes or misconduct by operating procedures by various systems, control, and immediate response;
- inform interest groups of risks and risk management; and
- be cost-effective in risk management.

The aim of risk management is not to:

- remove all risks in their entirety;
- adapt unnecessary controlling mechanisms; or
- create unnecessary administrational burden.

INTERNAL CONTROL

Internal control is a process applied by the Board of Directors, management and all Group personnel to ensure that management has reasonable assurance that

- operations are effective, efficient and aligned with strategy;
- financial reporting and management information is reliable, complete and timely made; and
- the Company is in compliance with applicable laws and regulations as well as the Company's internal policies and ethical values.

The first category addresses the basic business objectives, including performance and profitability goals, strategy, implementation of objectives and actions and safeguarding resources.

The second category relates to the preparation of reliable published financial statements, including interim reports and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly.

The third deals with complying with those laws, regulations, and internal procedures to which the Company is subject to.

Lehto Group's internal control framework consists of:

- the internal control, risk management and corporate governance policies and principles set by the Company's Board of Directors;
- management overseeing the implementation and application of the policies and principles;
- the Finance department monitoring the efficiency and effectiveness of the operations and reliability of the financial and management reporting;
- the Company's risk management process identifying, assessing and mitigating risks threatening the realisation of the Company's objectives;
- compliance procedures making sure that all applicable laws, regulations, internal policies and ethical values are adhered to;
- effective control environment at all organisational levels including control activities tailored for defined processes and creating minimum requirements for the Group's business segments and geographical areas;
- shared ethical values and strong internal control culture among all employees, and
- internal audit assignments reviewing the effectiveness of the internal controls as needed.

Risk management procedures are in place for business processes in the form of defined control points:

- relevant process risks are identified;
- common control points/Group's minimum requirement control points are identified;

- common control points are implemented in business processes;
- additional control points can be determined as needed at business or functional levels.

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks in order to achieve the Company's objectives. Control activities are set throughout the organisation, at all levels and in all functions. They include a wide range of activities, such as approvals, authorisations, verifications, reviews of operating performance, security of assets and segregation of duties.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The purpose of internal controls over financial reporting is to ensure the accuracy, reliability, timeliness and appropriateness of financial information.

Financial reporting organisation and duties

The Group's financial administration is handled centrally by the parent company, whose organisation provides financial administration services to all Group companies. Although the subsidiaries have no actual financial administration organisation, their personnel produce financial data which is used as part of the Group's financial reporting.

The main duties of financial administration include:

- Group accounting
- subsidiaries' accounting
- sales invoicing and accounts receivable management
- accounts payable management
- remittance of payments
- compilation of monthly financial reports supporting the business operations
- cash management and the coordination of financing
- control of the forecast and budgeting process
- taxation and transfer pricing
- company law-related duties.

The financial administration organisation implements operative supervision under the CFO who reports any supervisory findings to the Audit Committee.

The tasks of the financial administration organisation have been divided between individuals and documented in the job descriptions of the teams and employees.

Financial reporting systems

The Group's main financial information system is a modular V10 enterprise resource planning system which has been tailored to the needs of Lehto Group. Since the Group's business operations are mainly project-based, financial and other basic data of the project is entered in the V10 system at the beginning of the project. All income and expenses as well as payments made and received are entered in the system and are further processed for the needs of internal and external accounting.

The general ledger accounting of the Group's special purpose vehicles is handled in the V10 system, and Group consolidation is handled in the Cognos Controller system. Payment process is handled through with Analyste Banking system.

Project and initiative management monitors project progress directly through the Profio (V10) system, but the profit reports of internal accounting are drawn up in Excel format. In the compilation of profit reports, data from Group and subsidiary accounting as well as project data obtained from the Profio system is used.

Supervision of financial reporting

The correctness of financial reporting is ensured through internal instructions, job and process descriptions, authorisation matrices, segregation of obligations and duties related to general ledger accounting, and financial reporting review meetings.

Service area-specific performance data is reviewed in the regular meetings of the service areas' steering groups, where the subsidiaries' management provides background and rationale for the results achieved.

The competences of financial administration personnel are maintained through regular training. Auditors assess the correctness of reporting in connection with, for example, the compilation of interim reports and through their other auditing work performed during the financial year.

RISK MANAGEMENT AND INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The key roles and responsibilities regarding the Company's internal control and risk management are defined as follows:

Board of Directors

The Board of Directors is ultimately responsible for the administration of the Company and for the proper organisation of its operations. According to good corporate governance, the Board also ensures that the company has duly endorsed the corporate values applied to its operations. The Board of Directors approves the policies and guidelines concerning internal control, risk management and corporate governance. The Board establishes the risk-taking level and risk bearing capacity of the Company and re-evaluates them on a regular basis as part of the strategy and goal setting of the Company. The Board reports to the shareholders of the Company.

Audit Committee

The Audit Committee of the Board of Directors is responsible for the following internal control related duties:

- monitor the reporting process of financial statements;
- supervise the financial reporting process;
- monitor the efficiency of the Company's internal control, internal audit if applicable, and risk management systems;
- process the descriptions included in the Corporate Governance statement's chapter Main features of the internal control and risk management systems related to the financial reporting process; and
- monitor the statutory audit of the financial statements and consolidated financial statements.

A more detailed description on how the Audit Committee is fulfilling its supervisory role is available in the Committee's annual plan. The Audit Committee reports to the Company's Board of Directors.

CEO

The CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders issued by the Board of Directors. The CEO sets the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. The CEO is in charge of the Company's risk management process and its continuous development, allocation of resources to the work, review of risk management policies as well as defining the principles of operation and overall process. The CEO reports to the Board on risk management as part of the monthly reporting. The CEO as well as the members of the Group's executive team, who are subordinate to the CEO of the Lehto Group, are in charge of risk management in their own areas of responsibility.

Chief Financial Officer and financial administration

The CFO ensures and controls that the Group's accounting and financial reporting practices comply with the law and that both internal and external financial reporting is reliable.

The financial administration:

- ensures a setup of adequate control activities for service areas in cooperation with their management;
- follows the adequacy and effectiveness of control activities; and
- ensures that external reporting is correct, timely and in compliance with regulations.

General Counsel

The General Counsel ensures and monitors the Group's compliance with its legal obligations and the manageability of contractual risks as well as to assist the service areas with the legal risk assessment of projects.

HR Director

The HR Director ensures and controls that the Group's payroll administration and the administrative procedures related to employment relationships comply with the law and are duly implemented.

EVPs of service areas

The EVPs of service areas are responsible for the implementation of internal control in their respective services areas. More specific internal control policies and procedures are established within each service area within the principles set by the Group functions. The service area's management is responsible for implementing risk management practices in the planning cycle and daily operations, and ensure the adherence of laws, regulations, internal policies and ethical values in their designated responsibility areas.

Some areas of risk management, in particular the management of financial risks and insurance, have been centralised for the purpose of scale advantage and for securing sufficient Group-level control.

The EVPs of service areas must also ensure that contractual risks related to their business operations have been assessed with sufficient accuracy.

Other information to be provided

INSIDER ADMINISTRATION

The Board of Directors of Lehto Group Plc has ratified on 9 August 2017 the company's Insider Guidelines which include directives and policies concerning insider administration, such as manager's transactions, trading restrictions and insider's register. The Insider Guidelines supplement the provisions of the Market Abuse Regulation (EU No 596/2014, the "MAR") and any rules and regulations based on it, Finnish regulations, such as the Criminal Act (39/1889, as amended) and the Securities Markets Act (746/2012, as amended), as well as Nasdaq Helsinki's Insider Guidelines effective from 3 of July 2016.

Lehto Group's insiders are divided into two groups. Persons obliged to declare insider holdings are members of the Board, CEO and other senior management of the company, who have regular access to inside information and are in the position to make decisions about the company and its future development.

Project-specific insiders are persons who have access to specified inside information. Project-specific insiders may also include persons acting on behalf of the company, such as lawyers and consultants. The company maintains a project-specific insider's register of any such confidential project that can be described as projects as defined by Nasdaq Helsinki and that can have a material effect on the value of the company's financial instruments.

Lehto Group complies with the EU Regulation on Market Abuse (MAR), which declares that managers under the obligation to report insider holdings may not trade the company's financial instruments during the 30 days prior to the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release (so called "closed period"). In accordance with the Lehto Group's regulation, the closed period ends the second day from the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information. According to Nasdaq Helsinki's insider guidelines the closed window shall be applied to persons that take part in the company's half year financial reports and financial statements and to other persons defined by the company, i.e. extended closed window. The extended closed window implies that trading with the company's financial instruments is prohibited of persons subject to the extended closed window in the 30 days prior to publication of quartal financial information and financial statements including information concerning the financial development of the company. These trading restrictions end on the second day following the publication of financial information. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information.

RELATED PARTY ADMINISTRATION

Lehto Group's related parties include Group companies, members of the Board of Directors, the CEO, the Group's executive team as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures.

On 17 June 2020, the Company's Board of Directors approved the guidelines for related party transactions, which determine the principles governing any related party transactions at Lehto Group. In addition to the above-defined related parties, these guidelines are applied more extensively to the Lehto Group's entire personnel. According to the guidelines, all related party transactions shall take place, and prices and other terms shall be set, under market conditions, i.e. under the same principles as with independent parties. The Company maintains a Related Party Log and follows clear reporting and advance approval procedures.

INTERNAL AUDITING

The Company has no separate internal audit organisation. This is taken into account in the content and scope of the annual audit plan. On the one hand, external auditing focuses on specific areas in turn to be audited, and on the other hand, on separately agreed priority areas.

AUDITING

According to Section 6 of the Company's Articles of Association, an audit firm whose chief auditor is a Chartered Accountant shall be elected as the company's auditor. The auditor's term of office shall expire at the end of the next Annual General Meeting following their election. In 2020, KMPG Oy Ab, a firm of authorised public accountants, acted as the Company's auditor, with APA Pekka Alatalo as the principal auditor. The fees for audit services in 2020 totaled approximately EUR 271,000. Furthermore, the Company paid the auditor approximately EUR 114,000 for services not related to auditing.

Lehto Group Plc

Voimatie 6 B
90440 Kempele

lehto@lehto.fi
+358 207 600 900

www.lehto.fi/en