

Half-Year Financial Report January-June 2021



January – June 2021 in brief

Net sales for January–June declined by 22.3% a year-on-year to EUR 197.6 (254.5) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.

The operating loss was EUR 2.6 million (operating loss of EUR 5.1 million). The decrease in projects with weak margins had a positive effect on the operating result. The operating result was burdened by high fixed costs in relation to current business volumes and the low profitability of some business premises projects.

The balance sheet position remained good.

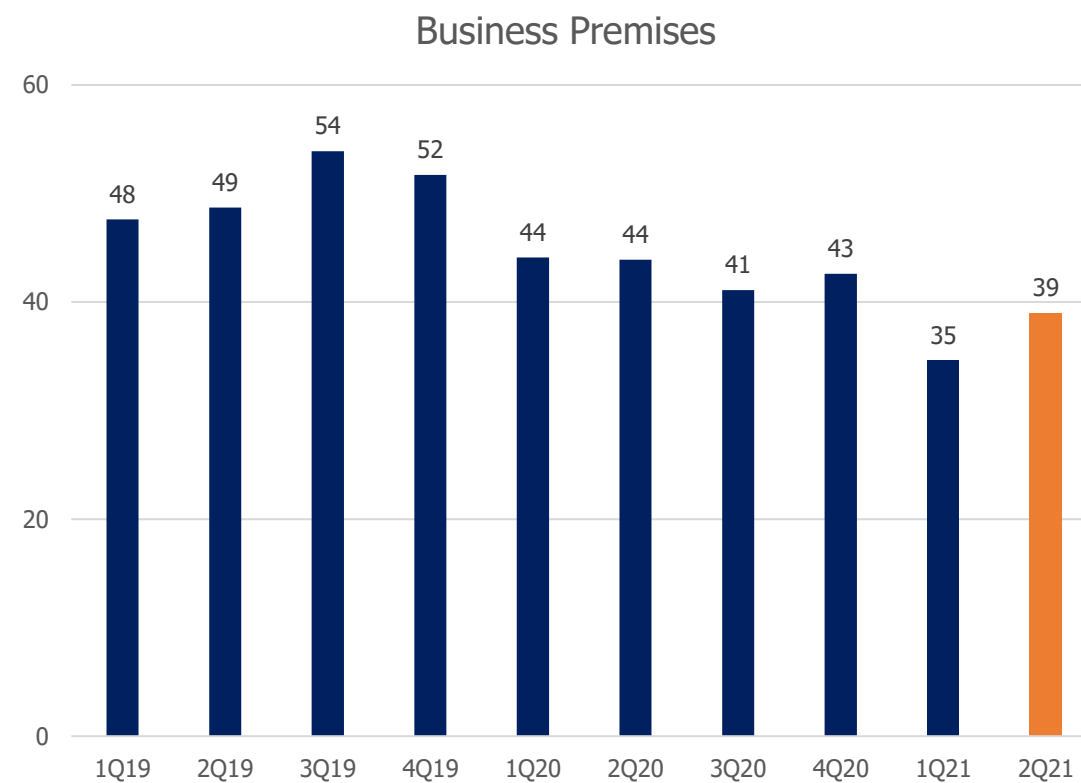
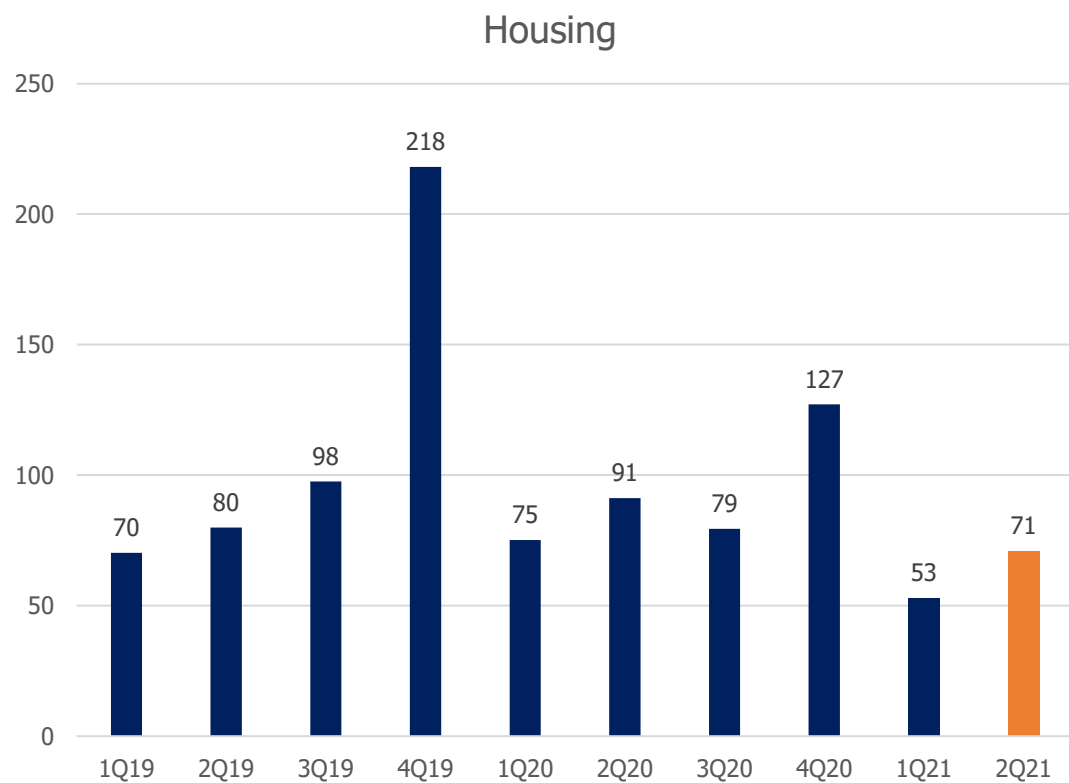
The order backlog rose to EUR 501.1 million.

Net sales by service area, EUR million

Service area	1-6/2021	1-6/2020	1-12/2020
Housing	124.3	166.4	372.9
Business Premises	73.3	88.0	171.7
TOTAL	197.6	254.5	544.7

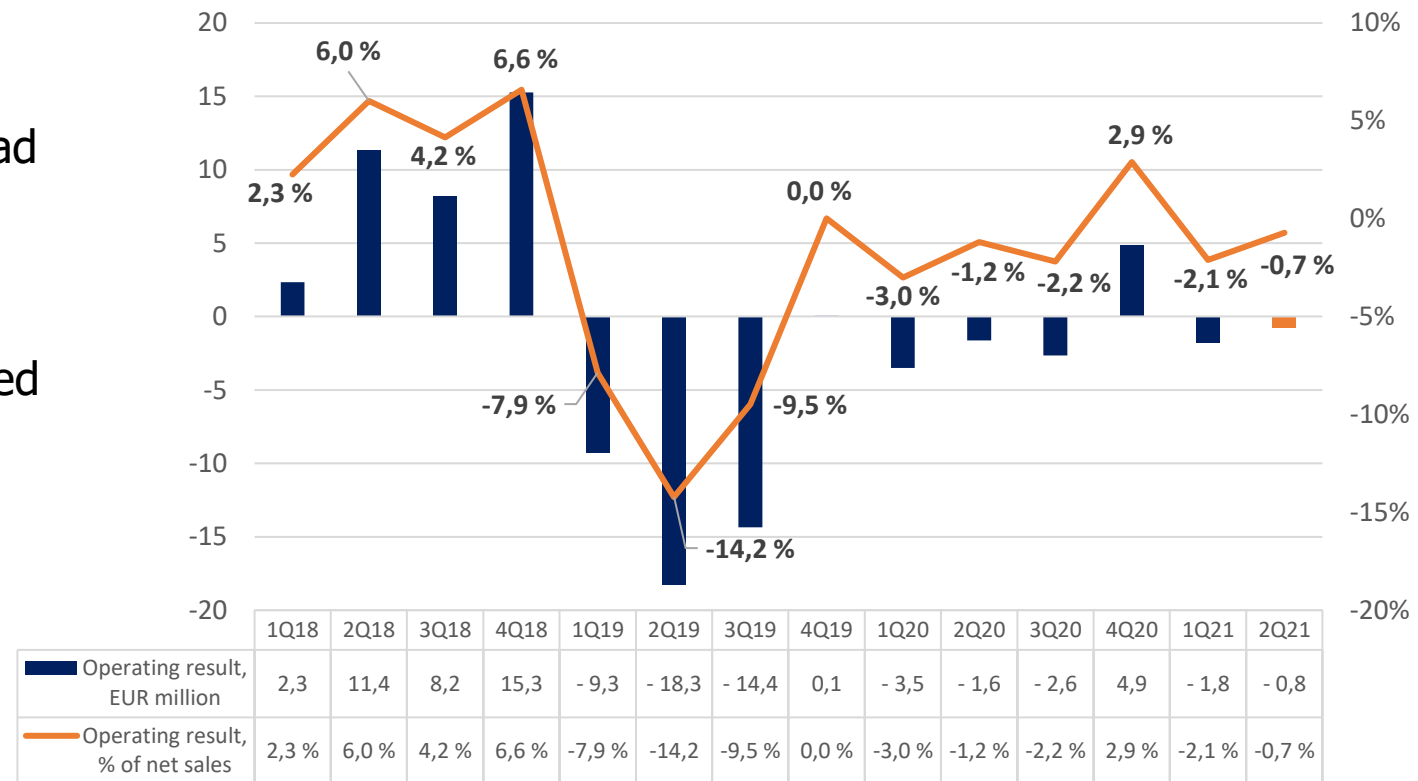


Net sales by quarter and service area, EUR million



2Q operating result better than in previous year

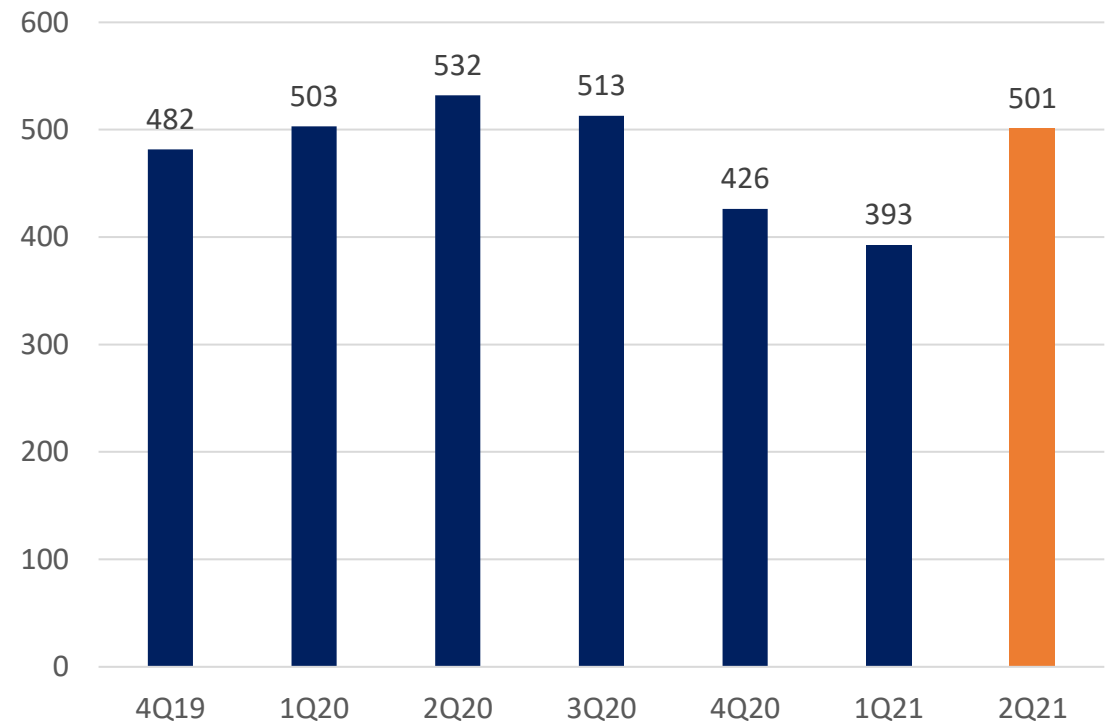
- The operating result in 2Q was -0.8 EUR million (-1.6 EUR million 2Q/2020)
- The decrease in projects with weak margins had a positive effect on the operating result.
- The operating result was burdened by high fixed costs in relation to current business volumes and the low profitability of some business premises projects.



Order backlog

- The order backlog rose to EUR 501.1 million (EUR 426.3 million on 31 December 2020).
- There was growth in both service areas.
- During the review period, several housing projects were sold to institutional investors and developer contracting projects were started, especially in the Helsinki metropolitan area and Turku.
- Multi-space office building for the City of Vantaa, a turnkey project valued at about EUR 58 million was included to the order backlog during the review period.

Order backlog at period end, EUR million



Balance sheet

- The balance sheet total grew slightly from the 2020 closing date.
- Inventories grew especially as the company acquired land plots for housing projects.
- The decrease in cash was due to growth in net working capital and the repayment of financial liabilities.
- Financial liabilities declined to EUR 67.8 million.

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



Housing

Net sales decreased by 25.3% from the comparison period to EUR 124.3 (166.4) million.

A total of 979 (1 290) housing units were sold during the review period, most of which were built through contract projects.

During the review period 447 (774) housing units were completed and the construction of 838 (1 050) new units was started.

Several agreements were signed during the review period for housing projects sold as contracts and for one care home and assisted living project as part of a housing project.

The pipeline renovation business has remained stable and 4 (7) were completed during the review period. 10 (11) properties were under construction at the end of the review period.

One (4) care home was completed during the review period and three (1) were under construction at the end of the period.

Business Premises

Net sales declined by 16.7% a year-on-year to EUR 73.3 (88.0) million.

Five business premises was completed and handed over during the review period (14 in 1-6/2020).

At the end of the review period, 19 (13) projects were under construction, most notably three hotel projects in the Greater Helsinki area, an office building for Fennovoima in Pyhäjoki and a pulp warehouse in the Port of Kemi.

The order backlog rose to EUR 228.5 million (EUR 194.2 million on 31 December 2020).

The school and daycare centre business performed in line with plans during the review period. One (3) project was handed over during the review period and two school projects are under construction: in Ivalo and Kouvola.



Swedish operations

Lehto has developed a type of wooden block of flats based on prefabricated space elements that is especially suitable for the Swedish market.

Lehto is currently negotiating with customers and investors on the implementation of the first pilot project. In the first phase after the pilot project, the intention is to carry out the projects as fixed-price contracts, with the construction phase being implemented with local partners.



Factory production

245 people worked in factory operations at the end of the review period (236 on 31 December 2020).

Current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.



Outlook for 2021

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

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

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



From the CEO

Business objectives and focus areas:

Profitability and competitiveness

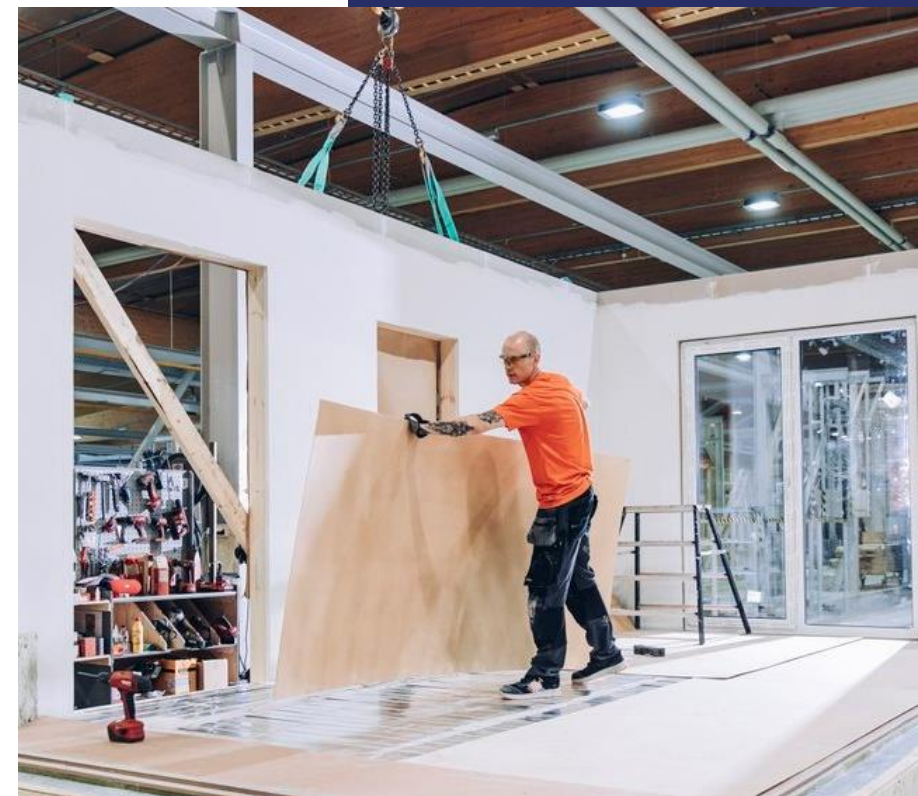
- Over the next few years, we will focus on improving our overall competitiveness.
- Improving the profitability of our projects is a priority, but as the company is still in the development and investment phase, our profitability targets will be moderate.
- Operational actions related to profitability:
 - Risk management in Business Premises' turnkey projects, especially in current market situation.
 - Clarifying preconditions for starting new projects: creating better possibilities to succeed.



Business objectives and focus areas:

Strategy

- The company's strategic cornerstones (design management, repeatable operating methods and solutions, industrial prefabrication and digital solutions) will be in the core of the operations also in the future.
 - New focus on zoning and project development
- In order to implement its strategy effectively, Lehto need to clarify its operating culture and methods.
- The company will evaluate and possibly revise its strategic choices by the end of April 2022.



Business objectives and focus areas

Priorities in service areas

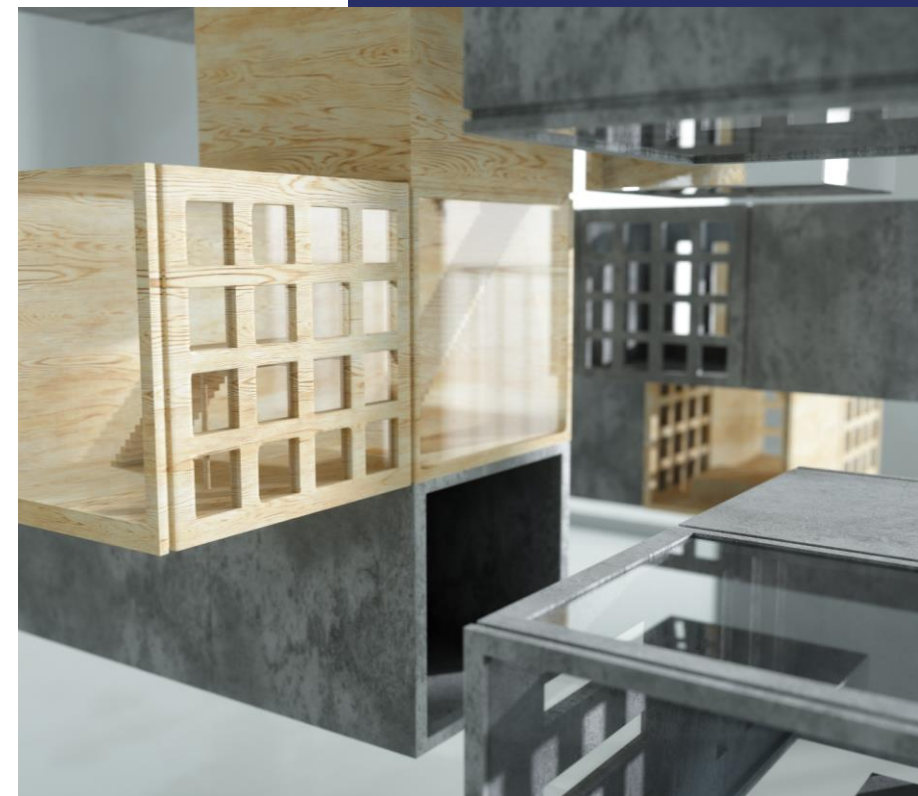
- In housing construction, the focus for the next few years will be on concrete apartment buildings, but wooden apartment buildings are expected to account for a growing share of total production.
- Business premises construction is expected to shift increasingly towards hybrid projects. The company will strengthen its expertise and resources in these kinds of projects.
- Lehto has a great experience in the successful implementation of hall type of retail, logistics, sports and warehouse buildings, and wants to utilise this existing experience and further develop the expertise.



Changes in Executive Board

Changes in the composition of Lehto Group Plc's Group executive board as of August 12, 2021.

- Juha Höyhtyä, EVP, Housing service area, will leave the Group executive board and the company during August 2021. Juuso Hietanen, CEO, will act as director for Housing service area until a successor is found.
- Jaakko Heikkilä, EVP, Business Premises service area, will leave the group executive board and the company in the end of year 2021. Matti Koskela, an experienced construction professional, will start as the director of the service area from the beginning of January 2022.





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