

LEHTO GROUP PLC

**Annual Report** 

### **Annual Report 2019**

ANNUAL REVIEW	3
Lehto Group – Innovator in the construction sector	5
Economically driven construction	5
Lehto's strategy	6
Lehto's long-term strategy in brief	7
2019 in figures	8
CEO Hannu Lehto	10
Events during 2019	11
Our service areas	12
References from 2019	14
Industrial manufacturing	15
Lehto's factory production	15
Products from our factories	16
Did you know this about industrial prefabrication?	17
Our employees	19
Construction megatrends	21
Our solutions	22
Shares and shareholders	23
Group Management	24
CORPORATE RESPONSIBILITY REPORT	25
Facts of 2019	27
Business model	29
Responsibility focus areas and management	30
Responsible construction	31
Personnel wellbeing	33
Responsibility of business practices	36
Key indicators of responsibility 2019	37
Developing responsibility	38



REPORT BY THE BOARD OF DIRECTORS	40
FINANCIAL STATEMENTS	<b>57</b>
Financial Statements (audited)	59
Consolidated statement of Comprehensive Income, IFRS	59
Consolidated Balance Sheet, IFRS	60
Consolidated Cash Flow Statement, IFRS	61
Consolidated statement of Changes in Equity, IFRS	62
Notes to the consolidated Financial Statements	63
Income Statement for the parent company, FAS	85
Balance Sheet for the parent company, FAS	86
Cash Flow Statement for the parent company, FAS	87
Notes to the Financial Statements for the parent	
company	88
Board of Directors' proposal for the distribution of profits	91
Signatures to the Annual Report and Financial Statements	91
The Auditor's Note	91
Group Key Figures	92
Shares and Shareholders	94
Auditor's Report	95

CORPORATE GOVERNANCE STATEMENT	100
Introduction	102
Descriptions concerning corporate governance	102
General Meeting of Shareholders	102
Board of Directors	102
Board committees	106
Group Management	107
Main features of the internal control and risk management systems related to the financial reporting process	111
Risk management	
Internal control	
Internal controls over financial reporting	
Risk management and internal control roles and responsibilities	113
Other information to be provided	114
Insider Administration	114
Related party administration	115
Internal auditing	115
Auditing	115



LEHTO GROUP PLC

**Annual Review** 





### **Annual Review 2019**

Lehto Group – Innovator in the construction sector	5
Economically driven construction	5
Lehto's strategy	6
Lehto's long-term strategy in brief	7
2019 in figures	8
CEO Hannu Lehto	10
Events during 2019	11
Our service areas	12
References from 2019	14
Industrial manufacturing	15
Lehto's factory production	15
Products from our factories	16
Did you know this about industrial prefabrication?	17
Our employees	19
Construction megatrends	21
Our solutions	22
Shares and shareholders	23
Group Management	24



# Lehto Group – Innovator in the construction sector

**LEHTO** is a fast-growing Finnish construction and real-estate group. We operate in three service areas: Housing, Business Premises, and Social Care and Educational Premises. Our mission is to be an innovator in the construction sector.

We are a pioneer in economically driven construction and our innovative operating model makes construction more productive, ensures the quality of construction and brings significant time and cost benefits to the customer.

We employ 1,274 (Q4 2019) people and our net sales for 2019 amounted to EUR 667.7 million. Our subsidiary Lehto Sverige Ab is starting up operations in the Swedish market.

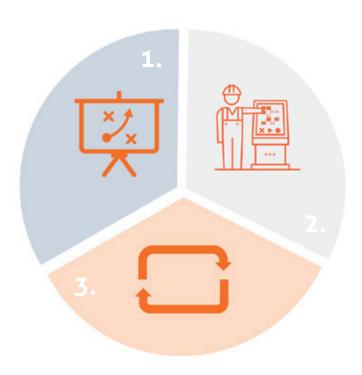
### **Economically driven construction**

**ECONOMICALLY DRIVEN CONSTRUCTION** is an innovation that integrates design and implementation. The first cornerstone of this approach is **cost-conscious design**: over 80% of construction costs are determined at the design stage, which is why we also keep this phase in our own hands.

**Industrial manufacturing** is at the heart of the economically driven construction process. It is what separates Lehto from other construction companies. Innovative module and element production at Lehto's own factories across Finland boosts productivity in construction, speeds up schedules, and ensures high quality compared to traditional construction.

The third major cornerstone of economically driven construction is **standardised solutions**. We do not always reinvent the wheel. Instead, we use tried-and-true solutions. Standard solutions speed up both the design and construction phases. This can also mean relying on established partner networks or operating methods.

Above all, economically driven construction is an **ideology and a way of thinking**. It boldly challenges traditional construction. This approach hinges on competent employees who have the right attitude. **Digitalisation** – which is increasingly powering up our business – also supports economically driven construction.



#### **DESIGN CONTROL**

Up to 80% of construction costs are determined at the design stage.

#### INDUSTRIAL MANUFACTURING

Production at our own factories guarantees a moisture-controlled chain and ensures high, uniform quality.

## REPEATABLE STANDARD SOLUTIONS

Effective standard solutions speed up design processes and construction.



6







### Lehto's long-term strategy in brief

**LEHTO'S** long-term strategy is defined until the year 2022. The strategy sets its sights not only in Finland, but also in the other Nordic countries. Lehto will forge ahead with the further development of its operating model. This concept-based model emphasises aspects such as customer benefits. We seek to make even greater use of standardised solutions in both design and production. Furthermore, we intend to increase the share of factory production in construction projects – that is, transfer construction from sites to factories. Through this model, Lehto seeks to attain significant schedule, cost and quality benefits for its customers.

#### **LONG-TERM FINANCIAL TARGETS**

- Average annual growth of net sales 10–20%
- Average operating profit approximately 10% of net sales
- Equity ratio a minimum of 35%
- Distribution of dividends approximately 30–50% of the result of the financial year

### **Strategic focus of our operations**

#### DIGITAL PROCESSES AND THE SERVICE CHAIN

- Our productivity development is based on a digital construction process, which
  guides and steers the entire construction production value chain. Accurately specified
  information modelling carried out in the right order brings added value to both the
  client and constructor. Operational efficiency increases, implementation is faster and
  the quality and usability of the property are improved.
- The life cycle benefits of information modelling can be achieved when the data generated during construction can be re-used in renovation and complementary building. Added value is produced when the information is used and processed further after the completion of construction for the maintenance, use and asset management of buildings.
- Our aim is to increase productivity by tens of per cent through digitalisation compared to construction on site.

#### CONCEPT-BASED OPERATING MODEL

• Lehto aims to develop design and building production so that as much as possible of the Group's production is based on standardised solutions.

#### INCREASING THE ROLE OF FACTORY PRODUCTION

• The goal is to continuously develop innovative module-based solutions and to utilise the current modular solutions in an increasing number of projects.

#### AN OPERATING MODEL THAT EMPHASISES CUSTOMER BENEFITS

 We aim to further develop our operating model that provides customers with an end-to-end solution that includes all the services required for the completion of a construction project. Through this model, we seek to attain significant schedule, cost and quality benefits for our customers.

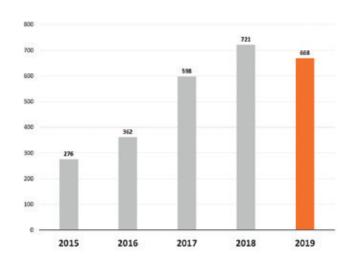
#### INTERNATIONALISATION

• Our goal is to further expand our operations in the Nordic countries.

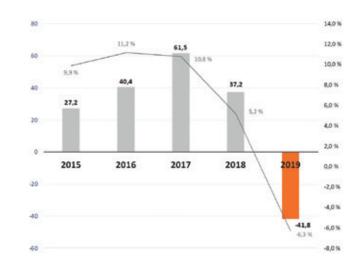


### 2019 in figures

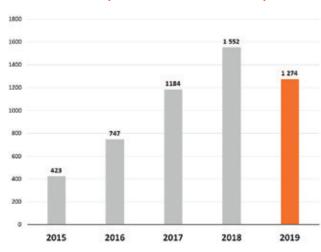
#### Net sales, EUR million



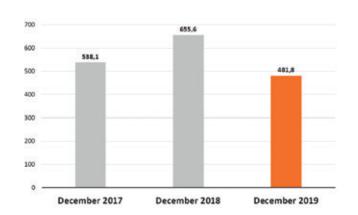
#### Operating profit, EUR million and operating profit, %



#### Number of personnel at the end of the year

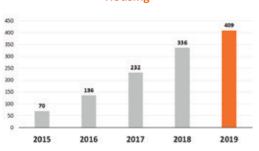


#### Order backlog, EUR million

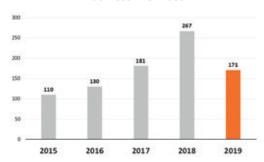


#### Net sales by service area, EUR million

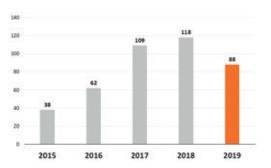
#### Housing



**Business Premises** 



**Social Care and Educational Premises** 



# 2019

Net sales were down **7,5%** on the previous year

The number of personnel at period end was 1274

A total of **24** business premises were completed during the period

The operating loss was EUR 41,8 million or

**-6.3%** of net sales

A total of **1837** apartments were sold in during the period

Lehto has production facilities totalling about

50 000 m<sup>2</sup>

A total of 14 care homes and assisted living facilities

 $\overline{\mathbf{3}}$  schools and  $\overline{\mathbf{1}}$  healthcare centre were completed







#### CEO Hannu Lehto

### **Getting our game in shape**

**IN 2019,** we focused on getting our game in shape after a period of strong growth.

Early in the year, we discontinued our Building Renovation service area due to its poor profitability. We only kept its very profitable pipeline renovations. During the review year, we also had to adjust both our production and personnel strength at our factories and in the Business Premises, Social Care and Educational Premises and Group administration organisations. In our day-to-day work, we have focused on matters such as induction and training, site forecasting, guidelines, manuals and other aspects that build our processes. These efforts are gradually producing results.

Our steps to develop the company's earnings performance will pay off down the line, but in our daily operations and practices we have already been able to turn the ship in the right direction.

The most memorable highlights of the year are our good housing sales in a challenging market as well as large-scale investor agreements, such as the DWS housing portfolio and the SBB assisted living facility portfolio. The company's largest project to date, Ideapark in Seinäjoki, was completed in November. In addition, we launched phenomenal new offerings during the year, such as a wooden block of flats

concept with contemporary appeal and the Kirittäjä (Pacesetter) concept for creating a business premises solution in just five days using lean methods. Lehto Total, a service package launched in the previous year that combines complementary building and pipeline renovations for housing cooperatives, attracted a great deal of interest in both the Greater Helsinki Area and the Tampere region where we presented the concept.

Our strategy remains unchanged – we have every faith in it and still believe that our plans truly set us apart in the industry. Lehto's way of building is ahead of its time with respect to three of the major megatrends – industrial construction, digitalisation and ecology. Our strategy yields customer benefits that drove strong growth, as there was – and still is – demand for our approach. Lehto's long-term objective is to achieve what our industry has as yet failed to do. We want to make construction more affordable, faster and higher quality. To this end, we must shake up the traditions of our industry and have a strong will to overhaul the way things are done.

In 2020, it is important for us to keep getting our game in shape and set our sights on profitability. We are now consciously taking a breather from pursuing growth.



### **Events during 2019**

 Lehto discontinues the Building Renovation service area and will limit its renovation operations

JANUARY

• Fennia withdraws from the Hippos2020 project – Lehto committed to continuing the preparation of the project

 Lehto transfers production operations from its Oulu factory to Oulainen

**FEBRUARY** 

MARCH

 Lehto launches an ecological block of flats and innovative online shop

 Lehto and Taaleri sign an agreement for the construction of 52 residential units in Kirkkonummi

• Lehto sells a portfolio of 542 apartments to the German company DWS

- Results of indoor climate measurements performed by the University of Jyväskylä indicate that Lehto flats have good living conditions
- Lumo Kodit and Lehto agree on building 56 new residential units in Vasaramäki. Turku
- Lehto announces that it will build a new Tokmanni store in Virrat

**AUGUST** 

 Lehto announces that losses in the first half of the year weaken Lehto's financial outlook for the year 2019

 Lehto announces that it will build a new factory for Meconet Oy in Hirvaskangas

- Fennovoima and Lehto clinched a contract for office buildings
- Lehto announces that it has agreed on four school projects: Hausjärvi, Siilinjärvi, Pieksämäki and Utsjoki

JUNE

- The framework agreement between Lehto and the special investment fund eQ Hoivakiinteistöt has been fulfilled, including two optional properties.
- Lehto receives an honourable mention for the development of information model practices in the Tekla BIM Awards 2019
- Lehto announces that it is starting pipeline renovations for a total of 360 residential units in the Greater Helsinki Area

MAY

- Lehto weakens its financial outlook for the year 2019
- Lehto starts production adjustment measures at its two factories
- Lehto offers a 24-month rent profit guarantee to buyers of investment flats
- Lehto signs an extensive preliminary agreement for the sale of 241 residential units in the Turku and Tampere regions

• Lehto starts employee cooperation negotiations to improve profitability

 Lehto announces that it will build a day care centre in Kouvola, a multipurpose school in Utsjoki and a school in Karigasniemi.

• Lehto announces a deal for a new school in Savukoski and the construction of a high-bay warehouse in Joensuu for John Deere Forestry Oy

• Lehto weakens its estimate of net sales and operating profit for 2019

- Lehto Group and SBB start cooperation with a large contract for NOVEMBER service homes
- The Kirittäjä (Pacesetter) concept is launched a business premises solution in five days
- Ideapark opens its doors to the public in Seinäjoki
- Lehto to build an art hotel in Jätkäsaari the only one of its kind in the Nordic region

- Lehto will build a datacenter for Yandex in Mäntsälä
- A building permit is granted to the Hippos2020 project



### **Our service areas**

In 2019, Lehto operated in three service areas: Housing, Business Premises, and Social Care and Educational Premises. The Building Renovation service area was discontinued in January 2019. However, its profitable pipeline renovations are continuing as one of the functions of the Housing service area.

#### **HOUSING**

Lehto builds new blocks of flats, balcony access blocks and detached houses. Lehto builds homes in growth centres, near good traffic connections and versatile services. We build reasonably priced, comfortable and compact homes in growth areas, especially the Helsinki Metropolitan Area, for singles, couples and families — not forgetting investors. Functional layouts, individual decoration options and highly affordable per-square prices make our apartments desirable. Our service area also provides high-quality, affordably priced and smooth pipeline renovations to housing cooperatives.

In 2019, Lehto launched its concept for ecological wooden of blocks of flats.





In November 2019, the Business Premises service area wrapped up the largest project in the company's history when Ideapark opened its doors to the public in Seinäjoki.

#### **BUSINESS PREMISES**

In the Business Premises service area, Lehto builds modifiable and reasonably priced office, retail, logistics, storage and production premises, sports arenas and shopping centres. Business premises are designed according to the customers' needs and are built using structural and spatial solutions developed and tried and tested by Lehto. We build business premises across Finland for local, national and international customers. Most of the business is in the form of contracting, but Lehto also implements some developer contracting-based business premises projects.

#### SOCIAL CARE AND EDUCATIONAL PREMISES

In the Social Care and Educational Premises service area, Lehto plans and builds nursing homes, day care centres and schools for the communal sector and nationwide service providers. In most cases, Lehto makes a lease agreement with a service provider and sells the finished property to a fund that invests in properties in the sector. In some cases, the properties are implemented as traditional construction contracts.

In 2019, Lehto made numerous agreements for schools around Finland. In addition, the service area started up cooperation with the Swedish company SBB with a large-scale agreement for assisted living facilities.







### **Comments from customers**

"The Lehto Group was able to make an offer for the school construction work as a turnkey contract – something that was massively important to us. Not all construction companies make such offers. Over 200 Finnish municipalities had a budgetary deficit last year and resources are tight. For that reason, it was truly wonderful that Lehto could provide a model that keeps the budget and schedule under control."

**Pekka Määttänen**, Mayor Municipality of Hausjärvi

"In the housing market, there's demand for compact rental apartments with smart floorplans and innovative solutions that enhance the efficient use of space – homes like Lumo. We're building them in collaboration with Lehto, this time in an excellent location in Vasaramäki, Turku."

**Ville Raitio**, Chief Investment Officer Kojamo

"We opened a new Tokmanni store in Virrat on a rapid schedule in time for Christmas sales in 2019. The team that installed the store furnishings said they'd never before carried out their work in a store that was already so finished. The new store was in really good shape on opening day in spite of the fast schedule."

**Marko Kupiainen**, Furnishing Installation Team Manager Tokmanni



### **References from 2019**

We utilise 3D design, module production and automated in-house factory production in our projects to achieve cost-effective and precise production, and high customer satisfaction. We seek to maximise cost-effectiveness without compromising on quality.

KIDE Hotel, Iso-Syöte



Luovi sports hall



Karveli quarter



As Oy Espoon Harmaakarhu



Attendo Äänekoski



As Oy Helenenkatu 7-9, Hyvinkää



Seinäjoki: Ideapark









"TO IMPLEMENT this kind of project, you need a construction company like Lehto that is agile and cost-efficient. We have previously worked together on the well-run Ideapark construction project in Oulu. Now we have an impressive and modern shopping and entertainment centre for our customers in Seinäjoki, too."

- Tuomas Henttula, Group President, Sukari Group -



### **Industrial manufacturing**

Lehto is also transforming construction by harnessing the power of industrial prefabrication. We are transferring challenging phases of construction from sites to factories – indoors, where work is not at the mercy of the weather.

Industrial prefabrication enables us to achieve cost and time benefits as well as to ensure quality from start to finish with our sustainable moisture-controlled chain.



### Lehto's factory production

Lehto's factory production already employs over 400 persons in rural towns and areas facing regional policy challenges.

#### **OULAINEN FACTORIES:**

- Space elements for modular apartment buildings
- Fixtures: kitchens, bedroom closets, hallway closets, kitchen islands, bathroom fixtures (mirror cabinets, etc.)
- 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

#### H:

- Wooden wall elements
- Partition walls
- Wooden detachable elements

#### LUOHUA:

- Wooden wall elements
- Partition walls
- Wooden detachable elements

#### **HUMPPILA:**

Large roof 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 at our Humppila 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.



### Did you know this about industrial prefabrication?

#### WE IMPROVE THE PRODUCTIVITY OF CONSTRUCTION

1.

It's a well-known fact that the productivity of Finnish construction has not increased significantly during the past 40 or so years. Industrial prefabrication is one means of substantially improving productivity: construction is partly transferred from construction sites to dry indoor factory premises, from where the completed components are transported to the sites. Not only is it faster to manufacture components, elements and modules in a factory than at the site – but this also speeds up work on the site.

#### **CUSTOMERS' WISHES DIRECT OUR FACTORIES**

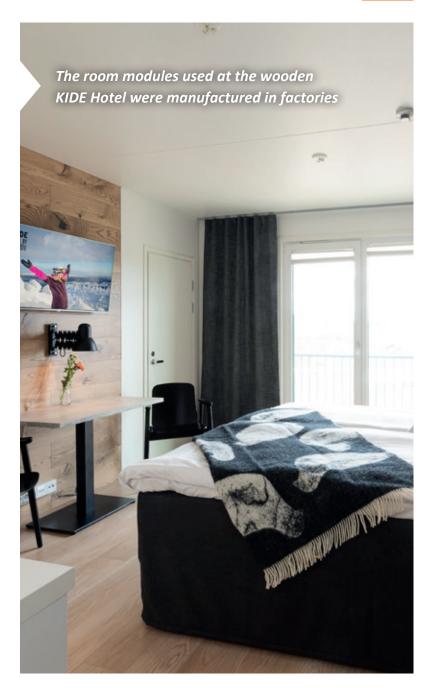
2.

Did you think that a building that is partly made at a factory cannot be unique or have personality? Our customers' wishes direct our factories: for instance, they can choose the kitchen layout of their new apartment from a range of tried-and-true alternatives, the colours of interior walls, laminate or parquet, the colours of kitchen doors and the bathroom floor tiles. What's more, Lehto apartments already come complete with many high-quality details, such as a stone composite kitchen basin, wall-mounted toilet seat and top-notch integrated household appliances. Industrial prefabrication enables catering to customers' wishes with respect to the new building and quality, while also keeping the price at a reasonable level.

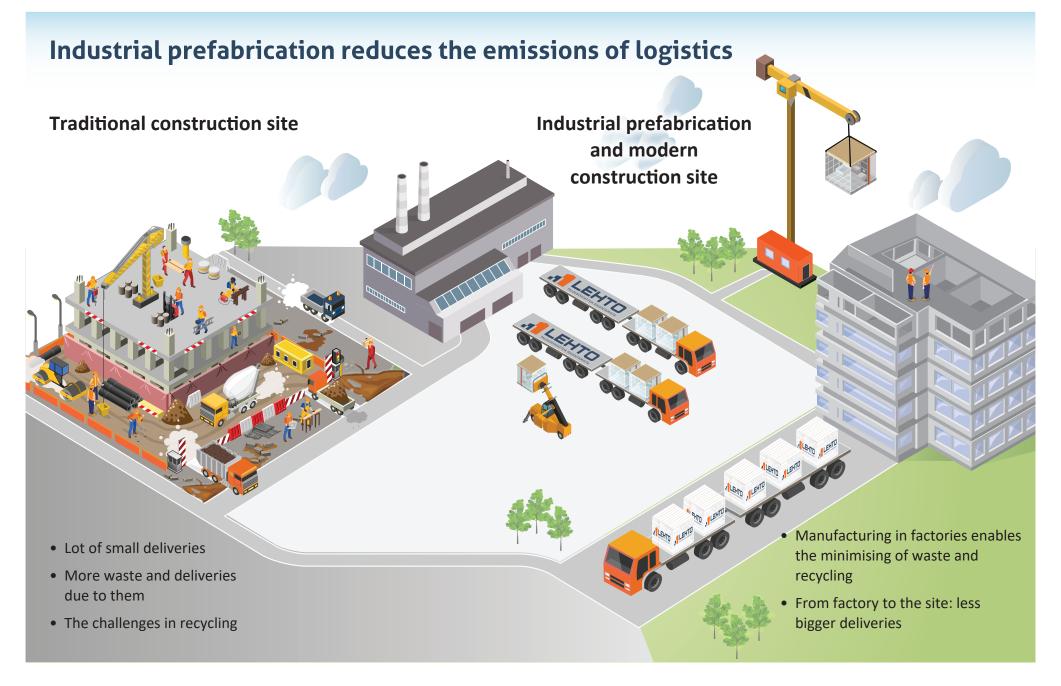
#### INDUSTRIAL PREFABRICATION IMPROVES QUALITY

Repeatability is one of the aspects of industrial manufacture that enhances quality. We rely on tried-and-true materials and work phases, which results in higher quality. In other words, we do not reinvent the wheel every time we build. We make use of good, proven solutions to benefit our customers. We do not think of buildings as "prototypes," unlike the traditional construction industry.

One of the cornerstones of quality in industrial prefabrication is our moisture-controlled chain, which improves on traditional construction methods: elements that were once built on-site at the mercy of the weather are now manufactured indoors. This ensures significantly better moisture control during construction.









### Our employees

IN 2019, Lehto conducted two major rounds of employee cooperation negotiations. The negotiations in the summer concerned factory production and resulted in a reduction of 70 person-work years in the form of layoffs and redundancies. The negotiations in the autumn in turn concerned factories, the Social Care and Educational Premises service area, the Group's renovation business and the parent company. The autumn negotiations resulted in a reduction of 143 person-work years in the form of layoffs, redundancies and switches to part-time contracts.

As a result of these negotiations, the Group's total personnel count has declined. The prevailing economic climate was also evident in recruitments, in which the focus has shifted after the period of growth from the recruitment of new employees to normal hiring to replace employees leaving the company.

In 2019, Lehto carried out four extensive personnel training programmes: Lehto's Induction Programme, Career Promise, Management Academy and Production Academy, a new programme that focuses on mobilising new practices arising from industrial production and the operating models of economically driven construction philosophy. In 2019, 97 students participated in the Career Promise programme. Management Academy training was developed to provide even better support to managerial work. To support the first module of the Academy, we developed information sources for managers to provide them with practical instructions and examples to facilitate managerial work.

The development targets we identified for 2019 in connection with People Power HR measurements were: investments in high-quality products and services, strategy-related communications, cooperation between units, and the visibility of the company's values and objectives in everyday work. We have progressed towards these goals by revising the content of our Induction Programme, Academy offering, and managerial training.

When it comes to occupational safety, Lehto started taking steps to develop guidelines, training and monitoring in an even more systematic direction. The aim is to significantly reduce workplace accidents over the next few years.

In 2019, Lehto carried out four extensive personnel training programmes.





#### "Lehto has a relaxed vibe, a warm atmosphere and flat hierarchy."



#### **AKI JUNTUNEN, PRODUCTION DIRECTOR, BUSINESS PREMISES**

"I returned to Lehto after a couple of years with another construction company. While I was working elsewhere, I missed the things that I found inspiring and motivating at Lehto, which not every other company lets you utilise. At a traditional construction company, you live in the world of competitive contracting, and you have little say on the plans. At Lehto's Business Premises, we first offer the customer a product and a 'wallet' and then we start the design work. We dare to offer novel alternatives."



#### KALEVI PÖYKIÖ, CARPENTER, LEHTO HOUSING

"In 2019, I worked at Lehto's As Oy Gibraltar site in Oulu. It's been 48 years since I stepped onto my first construction site. Over the years, I've seen and done all sorts of things. My days currently involve a wide variety of carpentry tasks, such as the installation of floor, partition wall and ceiling boards and the panelling of saunas and washrooms. I feel that employees are valued here. Occupational safety also plays an important role. The company devotes great effort to it."



#### MARIA PERNU, ADMINISTRATIVE ASSISTANT

"When I heard there was a job opening for an administrative assistant at Lehto, I felt in my heart that this is the workplace for me. I like customer service and I'm here for people – to help our guests and employees. Lehto has a relaxed vibe, a warm atmosphere and flat hierarchy, even though our work community is already quite big. We greet each other, talk and smile. That's why it's always nice to come to work. Lehto values the development of expertise. I'm studying human resources and managerial work – studying can open up good career paths at a growing company."



### TIINA MYLLYNEN, DESIGNER, SOCIAL CARE AND EDUCATIONAL PREMISES

"I've been at Lehto for three years now. I mainly design schools and day care centres. We have good team spirit. Even though we have many different kinds of experts, we're a united team. As a designer, I feel that this operating model gives me a great opportunity to develop professionally. I may play a greater, more important role than a designer usually does.

I also get to be in touch with very different kinds of doers and sites during my working days. At Lehto, you work independently and take responsibility. People don't breathe down your neck or try to micromanage you – what matters is that the end result is good."



### MARJA RAJALA, OCCUPATIONAL SAFETY MANAGER, FACTORY PRODUCTION

"I came to work at the Oulainen factory in 2017. After about a year, I stepped into the position of Occupational Safety Manager. Since then, we've successfully reduced the accident frequency – absolute commitment is the watchword in improving safety. We still have work to do in this respect. In 2020, the key

focus in occupational safety was to involve employees in the development of safety and observation of the work environment. Good everyday measures include safety briefings at the workplace and proactive safety observations. In addition, accidents are analysed and corrective measures are taken immediately. I enjoy my job and feel that we're all working together."





### **Construction megatrends**

Three major megatrends of the future have been identified in the construction industry. Lehto is a pioneer in Finland. Among other things, the company seeks to transfer construction phases from sites to factories.

#### **FROM SITES TO FACTORIES**

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. In 2019, a Lehto block of flats project received an honourable mention in the Tekla BIM Awards 2019 for the development of information model practices.

#### SUSTAINABLE CONSTRUCTION

In 2019, Lehto launched a new concept for industrially manufactured wooden blocks of flats. The company is particularly interested in carbon-neutral construction, such as in the Housing service area. Lehto uses geothermal heating and wood as an ecological raw material company-wide at numerous sites. Industrial production supports the ideology of sustainable construction by reducing waste and loss in production.



### **Our solutions**

For housing cooperatives struggling to carry out pipeline renovations:



In the worst-case scenario, the design phase of business premises can take years and budgets are exceeded:

### Lehto Total – free pipeline renovations?

Lehto Total combines pipeline renovations and housing construction in a unique way. Sparsely built plots may mean unutilised assets that can be harnessed with supplementary construction. A housing cooperative can fund its pipeline renovations by selling building rights to Lehto. If no free building rights are available, a plan alteration application can be submitted. Lehto serves as the only contractual partner of the housing cooperative and has end-to-end responsibility for the success of the project, from design to final cleaning. We give the best warranty on the market for our pipeline renovations!

# Lehto Finance – get a home of your very own without having to save up for many years!

Lehto Finance (Lehto Raha) is an easy solution for buying a new home. Choose the materials for your home and move in immediately when it has been completed. We draft a fixed-term lease agreement and a preliminary agreement on the purchase of the apartment. After 12 months, we will credit you with five per cent of the debt-free price of the apartment when you redeem it for yourself. This amount corresponds to the down payment that the Financial Supervisory Authority requires from first-time homebuyers. In other words, you do not have to use up all your savings on the apartment and finance it solely with debt. The service is designed for first-time homebuyers, but can be used by all those buying an apartment for themselves. You can move into your new apartment and benefit from the credited share when you redeem the apartment for yourself.

### Kirittäjä (Pacesetter) – a five-day solution for business premises!

If you are building new premises – for retail, sports, logistics or production – turn to us for a solution proposal. With our Kirittäjä service, based on the lean method, we will provide you with a fixed-price proposal for your business premises construction project in five working days – just one working week. Kirittäjä does not commit you to anything – and the service is free of charge! All you have to do is spend five hours of your time during the project week – and we will propose a fixed-price, competitive and comparable solution. After we give you our proposal, you can think about whether you would like to keep working with us.



### **Shares and shareholders**

#### **SHAREHOLDERS 31 DECEMBER 2019**

	Number of shares	%
Lehto Invest Oy	21,748,221	37.3 %
Kinnunen Mikko	1,446,454	2.5 %
Danske Invest Finnish Equity Fund	915,718	1.6 %
Saartoala Ari	865,329	1.5 %
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	800,000	1.4 %
Sr eQ Pohjoismaat Pienyhtiö	761,336	1.3 %
Heikkilä Jaakko	640,000	1.1 %
OP-Henkivakuutus Oy	476,231	0.8 %
Keskinäinen Työeläkevakuutusyhtiö Elo	474,206	0.8 %
Paloranta Veli-Pekka	324,851	0.6 %
10 LARGEST SHAREHOLDERS	28,452,346	48.8 %
Nominee-registered	6,515,921	11.2 %
Other shareholders	23,341,176	40.0 %
TOTAL	58,309,443	100.0 %

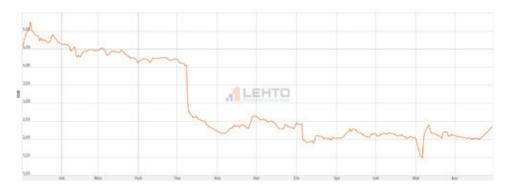
#### SHAREHOLDING BREAKDOWN

SHAREHOEDING BREAKDOWN	Number	
	of shares	%
1 – 100 shares	284,132	0.5 %
101 – 1,000 shares	4,133,862	7.1 %
1,001 – 10,000 shares	9,081,839	15.6 %
10,001 – 100,000 shares	7,058,243	12.1 %
100,001 – 1,000,000 shares	8,817,295	15.1 %
over 1,000,000 shares	28,934,072	49.6 %
TOTAL	58,309,443	100.0 %
where of Nominee-registered	6,515,921	11.2 %

#### **SHAREHOLDINGS BY SECTOR**

	Number of shares	%
Companies	26,856,144	46.1 %
Financial and insurance institutions	8,306,118	14.2 %
Public sector organizations	1,492,013	2.6 %
Households	21,303,825	36.5 %
Non-profit organizations	186,485	0.3 %
Foreign countries	164,858	0.3 %
TOTAL	58,309,443	100.0 %
where of Nominee-registered	6,515,921	11.2 %

#### **SHARE PERFORMANCE 2019**



Closing price of the share
Lowest rate during the review period
Highest rate during the review period
Trading
EUR 2.35
EUR 1.48
EUR 5.33
45,281,956 shares



### **Group Management**



### Group's executive team 2019

From left: **Hannu Lehto**, CEO | **Juha Höyhtyä**, EVP, Housing | **Ville Kettunen**, EVP, Social Care and Educational Premises | **Timo Reiniluoto**, EVP, Business Support Services | **Veli-Pekka Paloranta**, Chief Financial Officer | **Toni Kankare**, Chief Commerciel Officer | **Arto Tolonen**, Chief Development Officer | **Jaakko Heikkilä**, EVP, Business Premises | **Kaarle Törrönen**, EVP, Human Resources | **Jukka Haapalainen**, EVP, Industrial manufacturing



LEHTO GROUP PLC

# **Corporate Responsibility Report**





### **Corporate Responsibility Report 2019**

Facts of 2019
Business model
Responsibility focus areas and management
Responsible construction
Personnel wellbeing
Responsibility of business practices
Key indicators of responsibility 2019
Developing responsibility

Cover: Lehto launched an ecological wooden apartment building concept in spring 2019



### Facts of 2019

1.

We introduced an annual plan for occupational safety that highlights the safety theme of the month and the previous month's accident statistics.



2.



Waste recycling rate

27%

We launched Deco – an ecological, industrially produced wooden apartment building concept that offers customers an even greater level of customisation



4.

We launched Fair
Play Rules training for personnel, and made it a part of every new employee's induction.





### Deco-wooden block of flats – cleaner way of living!

# Quality, cosy and affordable

Lehto Deco homes are constructed in industrial components mainly in factories under standardised and controlled conditions.

Deco wooden block of flats are combined with ecological, high-level architecture and quality way of building



# All Deco homes are equipped

- apartment based ventilation
- water based floor heating
- integrated energy efficient kitchen appliances with high quality
- energy and water saving tap water equipment
- tall windows for natural light
- building automation system (BAS)







### **Business model**

**LEHTO GROUP** is a Finnish innovator in the construction sector. Lehto seeks to make construction faster, more affordable, and higher in quality. Key elements that enhance our productivity and competitiveness are design control and the use of standardised building elements and modules that are prefabricated in our own factories. Lehto's goal is to build efficiently and save resources, and to reduce the material waste generated in construction.

Lehto Group's net sales totalled EUR 668 million in 2019. At the beginning of the year, our operations were consolidated into three service areas: 'Business Premises', 'Housing' and 'Social Care and Educational Premises'. Lehto also restructured its management team during 2019. Lehto has factories in five 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 2019, Lehto Group had 1,266 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 2,872 new apartments in 2019. 31 new business premises and 28 social care and educational premises were also completed in 2019. The Complete Renovation business area was wound up in early 2019 and merged into other service areas, including pipeline renovations. In the future, new complete renovation projects will only be undertaken selectively and on the condition that the renovation is related to new construction projects or is a significant part of a larger commercial entity.





### Responsibility focus areas and management

THE BUILT environment has a major impact on the development of the urban landscape. The trend in urban development is towards sustainable housing, mobility and services. Vast amounts of materials are moved in construction, from land masses to a variety of products and coatings. The construction industry plays a major role in reducing construction's carbon footprint and cutting down on waste. The construction cluster is Finland's largest employer and many young people work in the industry. The construction industry is also heavily male-dominated.

Responsibility is one of the values that guides Lehto's operations. The key elements that enhance Lehto's productivity and competitiveness — design control and the use of standardised building elements and modules that are prefabricated in our own factories — also form the core of our responsibility efforts. 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 responsibility of 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 focal areas, primarily by the HR Director, Sourcing Director and Legal Counsel. The management team monitors trends in the key indicators of responsibility.

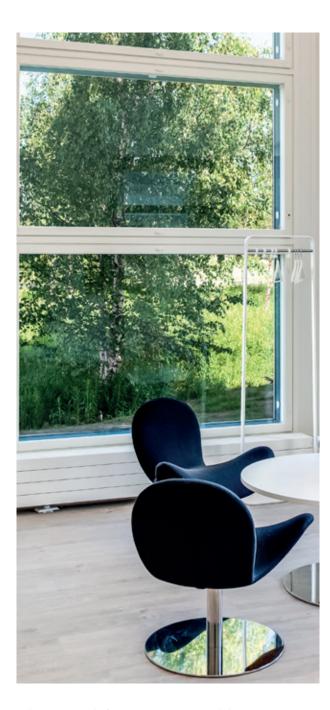
Lehto Group reports to external stakeholders on its responsibility in connection with annual reporting, and our reporting complies with the requirements laid down for non-financial information in the Accounting Act.

#### 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
Human rights	Responsibility of business practices, personnel wellbeing
Anti-corruption activities	Responsibility of business practices







### **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.

The emissions of construction can be significantly reduced during the design phase. For example, material choices can favour more environmentally friendly alternatives without causing a significant rise in costs. Decisions on energy solutions made during the design phase will determine a building's energy use for decades to come. It's already possible to construct buildings that not only use very little energy, but also produce almost all the energy they need themselves in an environmentally friendly way.

The location of housing also has indirect environmental impacts that arise from commuting in particular. If new housing is built in an urban environment close to good public transport connections, there will be less need to use private cars.

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.

### 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)

We improve our productivity with economically driven construction that employs highly standardised technical solutions and operating methods, and by using prefabricated elements and modules manufactured in our own factories. This improved productivity will also be reflected as a reduction in environmental burden. 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.





Lehto wants to proactively promote carbon-neutral construction. In late 2018, we launched our Carbon Neutral 2030 development programme. This five-step programme seeks to create carbon-neutral innovations for housing construction, and research solutions that promote Smart & Clean technology. The project will initially focus on Helsinki and Tampere. Progress towards our Carbon Neutral 2030 goals will form an integral aspect of our efforts in the Housing business area during 2020.

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 compared to the previous year and was 27%\* in 2019 (2018: 20%). The share of electricity accounted for by renewable energy was 76%\*\*.

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.

In Lehto Group's business, the risks of major environmental damage are low. Local damage may be caused if a limited amount of chemicals is released into the environment or, for example, in the event of a fuel leak from machinery on a construction site. These risks are managed using standardised practices and guidelines at both factories and construction 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.

<sup>\*</sup>Covers about 80% of waste; the information is based on figures received from the service provider

<sup>\*\*</sup>Covers about 90% of purchased electricity; the information is based on figures received from the service provider and calculations based on these figures



### Personnel wellbeing

**EMPLOYEES** are the most important asset for Lehto Group's growth 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. 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. 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.

Lehto held two major rounds of employee cooperation negotiations during the year. The employee cooperation negotiations in the summer concerned factory production and resulted in a reduction of 70 personwork years in the form of layoffs and redundancies. The employee cooperation negotiations in the autumn concerned factories, the Social Care and Educational Premises service area, the Group's renovation business and the parent company. The autumn negotiations resulted in a reduction of 143 person-work years in the form of layoffs, redundancies and switches to part-time contracts.



#### **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 2019, the accident rate for the Group as a whole was 29 (LTI1 index) (2018: 43). 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 2019, we arranged one-day safety park training sessions that covered the entire production, business premises, and housing construction organisations. These training sessions focus on giving examples of accidents and discussing them in a real-life environment. Safety issues have also been added to the training provided by the Management Academy and Production Academy.



We actively wanted to raise employees' awareness of safety issues by introducing an annual plan 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 onsite 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. We aim to go through every serious accident (such as a fall) immediately and find new ways to prevent such incidents. For example, an element fell from the fifth floor on one of our sites in 2019. After this, we informed personnel and immediately updated our element installation instructions.

### 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 is positive towards employee competence development and supports it in a variety of ways.

Lehto had four comprehensive personnel training programmes in 2019: Lehto's Induction Programme,

Career Promise, Management Academy and Production Academy. The Induction Programme is divided into four stages: increasingly more-advanced induction sessions are carried out before employment, immediately on starting work, within 1–3 months and within 3–6 months. Units are responsible for induction training, with support from HR.

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 129 students in 2019.

The Management Academy is divided into two coaching programmes. Management Academy I is completed by all white collar employees taking a supervisory role. Management Academy II is aimed at middle management and persons in charge of project management.

Production Academy is a new training programme that has been launched to support on-site activities. It focuses on mobilising new practices arising from industrial production and the operating models of economically driven construction philosophy.

Lehto Group seeks to be a good and fair employer for everyone. Lehto Group's personnel are committed and turnover is not particularly high. In 2019, our employee total turnover rate was 26% (2018: 36%). In late 2018, we measured our employees' job satisfaction with an extensive personnel survey. The results show that we are rated AA according to People Power®, outperforming the Finnish general norm. The job satisfaction report was published on Lehto's recruitment website to increase transparency for potential employees. The development targets we have identified for 2019 were: investments in high-quality products and services, strategy-related communications, cooperation between units, and the visibility of the company's values and objectives in everyday work. We have progressed towards these goals by revising the content of our Induction Programme, Academy offering, and supervisor training.

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

Safe and healthy work, and a safe and healthy working environment and work community

The prevention of occupational health hazards and harmful health effects

Employees' selfmotivated maintenance, improvement and monitoring of their working and functional capacity

Preventing illness at different phases of a career.

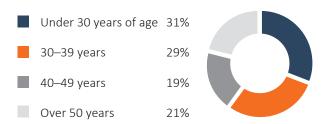
4

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 2019 totalled 3.3% (2018: 4%).

### 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.

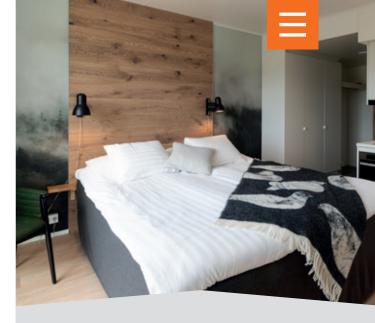
Lehto Group's HR and training plan and equality and non-discrimination plan are both updated on an annual basis, and they form part of our operational planning. Equality and non-discrimination are monitored through gender, age and regional distributions. In 2019, women accounted for 15% of personnel (2018: 14%), 0% of the management team (2018: 0 %) and 20% of the Board (2018: 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 2018 is shown in the diagram below.



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.



# **CASE** | Developing responsibility:

### A WOODEN HOTEL FOR RESPONSIBLE CONSUMERS

The Kide Hotel, which has just opened on the Iso-Syöte fell, responds to current trends, as today's travellers want to make responsible choices. Kide is built from Finnish wood and is heated using geothermal energy. It is a digital, smart and energy-efficient hotel that showcases the strength of future provincial construction. The room modules (that is, the different-sized rooms) used at the Kide Hotel were manufactured in factories, where they are protected from the weather and elements. They were then delivered to the construction site in an almost-ready state to be installed on the precast foundations. The roof was also mounted in one day, so there was no opportunity for varying weather conditions to damage the buildings.



### 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. 640 people (around 50 per cent of all personnel) completed this training during the year.

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, and the code of conduct has also been sent to our existing partners. 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 that was opened at the beginning of 2019. The Group's Legal Counsel, in collaboration with the Group's CEO, is responsible for initiating investigations into any reported cases. Investigations were launched into two suspected cases during 2019, and these cases were still ongoing at the turn of the year. 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 received a warning from the Council of Ethics in Advertising concerning the Lehto Profit campaign in spring 2019. We have instigated corrective measures and reviewed marketing ethics in detail within our marketing and communications organisation.

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 (in Finnish)
- Lehto Group's risk management policy



## **Key indicators of responsibility 2019**

PRIORITIES	INDICATORS	2019 OBJECTIVE	2019 RESULT	2020 OBJECTIVE
	Waste recycling rate*	Increases	27%	70%
Responsible construction	Share of electricity accounted for by	Baseline defined	76%	Increases
Personnel	renewable energy**  Lost time accident  frequency***	Decreases	LTI1=29 significant decrease	LTI1 < 15
wellbeing	Ethical guidelines, scope of training	All personnel trained	52 % of personnel trained	All personnel trained
Responsibility of business practices	Scope of ethical guide- lines in procurement contracts	100% of new contracts	100 % of new contracts 63 % of existing contracts	100% of new contracts 100% of prior to 2019 framework contracts and annual agreements

<sup>\*</sup>Covers about 80% of waste; the information is based on figures received from the service provider

<sup>\*\*</sup>Covers about 90% of purchased electricity; the information is based on figures received from the service provider and calculations based on these figures

<sup>\*\*</sup>LTI1 = accidents leading to absence from work of more than one day per million hours worked



## **Developing responsibility**

**RESPONSIBILITY** is one of the values that guides Lehto's activities, and in 2020 we will continue our work in the three focal areas that have been defined for responsibility: responsible construction, personnel wellbeing, and responsibility of business practices.

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. We will continue to mobilise the safety-enhancing processes and models that we have developed, and will also make further investments in safety training for personnel both on- and off-site.

New rules on protection for whistleblowers will come into force in the EU in 2021. The new rules will require the creation of secure reporting channels in all organisations, including private companies. During 2020, Lehto will update its own reporting (or whistleblowing channels) channels for reporting misconducts and abuses so as to comply with the new EU Directive.

Lehto's Carbon Neutral 2030 programme is progressing as planned, with revisions made on the basis of customer and stakeholder interviews. Our long-term objective is to significantly reduce the carbon load caused by construction and make carbon-neutral construction a profitable business.

0

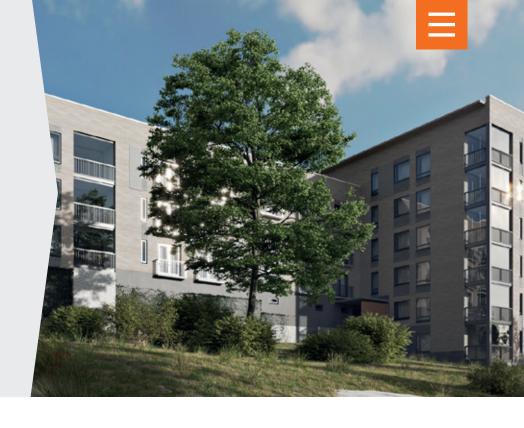
Lehto's Carbon Neutral 2030 programme (in Finnish)



## **CASE** | Responsible construction in everyday life:

#### WALNUT TREE GETS ITS OWN SPACE ON AN APARTMENT BUILDING PLOT

This tree – playfully referred to as 'Finland's most expensive tree' – grows on the aptly named 'Helsinki Walnut' plot (As Oy Helsingin Jalopähkinä). Lehto is developing the plot for its Nero apartment buildings, but space for the Manchurian Walnut has been left in one corner of the construction site. This walnut tree in the Pukinmäki district is one of Helsinki's 31 protected natural landmarks. A 'natural landmark' means a special natural feature whose damage or defacement is prohibited by law. Lehto has planned the location and shape of the apartment building to ensure that there is sufficient space for the protected tree. About one fourth of the plot has been allocated to the tree, and the locations of both the apartment buildings and the construction site have been carefully planned with experts. By order of the City, the tree's living conditions may not be compromised either during or after construction. Lehto has, for instance, made sure that the site has been adequately watered during construction.





## **CASE** | Responsible construction in everyday life:

#### **FACTORY CUTOFFS BACK INTO CIRCULATION**

**Gypsum board is being recycled at factories.** Almost every Lehto Components factory returns its gypsum board cutoffs to the supplier. The gypsum boards are supplied by Knauf, which also accepts returns of production cutoffs. About 1–2 cubic metres of gypsum board cutoffs are generated in production per day. The gypsum board cutoffs are collected by the truckload and then delivered to Knauf's factory in Kankaanpää, where they can be reused.

**Window frame cutoffs are returned to the supplier.** The window and balcony door line at Lehto's factory in Oulainen manufactures windows for Lehto buildings from pre-shaped materials, cutting them into the correct dimensions. Cutoffs from the window and door frames manufactured at the factory are sent back to the supplier in Poland. Rehau's processing plant in Poland melts them down into pellets that can later be recompressed into new products.



LEHTO GROUP PLC

# **Report by the Board of Directors**





### Summary 2019

Group	1-12/2019	1-12/2018
Net sales, EUR million	667.7	721.5
Change in net sales, %	-7.5%	20.7%
Operating profit, EUR million	-41.8	37.2
Operating profit, % of net sales	-6.3%	5.2%
Profit for the period, EUR million	-35.7	28.7
Order backlog at period end, EUR million	481.8	655.6
Earnings per share, EUR	-0.61	0.49
Cash and other liquid assets, EUR million	59.2	53.4
Interest-bearing liabilities, EUR million	189.2	115.9
Lease liabilities in interest-bearing liabilities, EUR million	46.8	
Equity ratio, %	29.6%	42.7%
Net gearing ratio, %	115.9%	38.5%
Equity ratio excluding lease liabilities, %	33.8%	
Net gearing ratio excluding lease liabilities, %	74.1%	

In 2019, net sales were down 7.5% on the previous year and amounted to EUR 667.7 (721.5) million. Net sales grew in the Housing service area and declined in the Business Premises and Social Care and Educational Premises service areas. Growth in the net sales of Housing was driven by continued good sales. During the year, 1,837 apartments were sold (1,929 in 2018).

The operating loss was EUR 41.8 million (operating profit of EUR 37.2 million), or -6.3% (+5.2%) of net sales. The operating result was affected by losses in three areas: about EUR 31 million from complete renovation operations, around EUR 12 million from operations in Sweden and approximately EUR 11 million from the Social Care and Educational Premises service area. The operating results of the Housing and Business Premises service areas were positive.

Due to loss-making businesses, the company's financial standing weakened. Net gearing ratio without lease liabilities in accordance with IFRS 16 grew to 74.1% (38.5%) and equity ratio without lease liabilities in accordance with IFRS 16 declined to 33.8% (42.7%). Indebtedness was at its highest at the end of the third quarter, but declined in the fourth quarter, thanks to the ending of several loss-making projects and cash freed up from net working capital. Cash and cash equivalents grew to EUR 59.2 (53.4) million during the financial year.

The order backlog decreased to EUR 481.8 (655.6) million due to the decrease in the number of ongoing housing and social care and education premises projects. The order backlog for the Business Premises service area grew.





#### **NET SALES AND OPERATING PROFIT BY QUARTER, EUR MILLION**

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019
Net sales	117.8	128.5	151.5	269.9	667.7
Operating result	-9.3	-18.3	-14.4	0.1	-41.8

#### **NET SALES BY SERVICE AREA, EUR MILLION**

	1-12/2019	1-12/2018	Change
Business Premises	170.8	267.3	-36.1%
Housing	409.2	336.3	21.7%
Social Care and Educational Premises	87.7	117.8	-25.6%
Total	667.7	721.5	-7.5%

### **Restructuring measures**

Lehto implemented many business restructuring measures in 2019, focusing especially on the project preparation phase and project management. In addition, Lehto's Board of Directors has decided on new structural and operational restructuring measures that seek to bolster Lehto's competitiveness and profitability, especially in the one-to-three-year timeframe.

Lehto is focusing even more strongly on areas based on its strategic competitive edges: standardisation and factory production. As part of this focus and due to changes on the market, Lehto plans to downscale the offerings of the Social Care and Educational Premises service area and merge its functions into other service areas, such that its care home and assisted-living facility functions will be transferred to the Housing service area and its school and daycare centre construction functions to the Business Premises service area. When selecting which projects to implement, particular attention will be paid to ensuring that they are a good fit with Lehto's strategy. The combination of business functions will also yield synergy benefits, especially in design, calculation, procurement and production.

The operational changes seek to improve project margins and eliminate negative deviations in them.

Lehto has launched a Group-wide development programme that focuses especially on improving the quality of project preparation prior to the construction phase. These actions are expected to improve profitability gradually as from the second half of 2020 onwards.

Lehto will start employee cooperation negotiations aiming to merge the functions of the Social Care and Educational Premises service area into other service areas and streamline operations in the Housing service area. Negotiations concern approximately 400 employees and based on Company's estimation may have impact of maximum 110 man-years.



### Business environment and business development in 2019

#### **GENERAL MARKET ENVIRONMENT**

Construction remained brisk in Finland during the first half of 2019 but began to decline in the second half. In their business cycle reports published in October 2019, the Confederation of Finnish Construction Industries RT and the construction trends group of the Ministry of Finance estimated that total construction output would decline by 1–2% in 2019 and further by 1.5–3.5% in 2020.

In spite of the decline in construction, growth in the number of new building permits granted was seen in the second half of the year. According to Statistics Finland, building permits for 9.5 million m3 were granted in September-November 2019, up 5.9% on the previous year. The greatest increase in volume was seen in the case of public service buildings, with 47.8% yearon-year growth in building permits. Building permits in terms of cubic metres also grew significantly in the case of business premises and office buildings, up 39.4%. Building permits for housing construction were down 8.5% on the previous year in terms of cubic metres, which is primarily due to the decline in the volume of terraced and detached houses. The volume of building permits for apartment buildings was at the previous year's level.

It is estimated that the construction of about 38,000 housing units was started up in 2019, about 7,600 fewer than in the previous year. The number of housing startups is expected to decline further to 32,000 in 2020. Public-sector construction of business premises

rose to a record high, but there was a significant decline in the construction of business premises and offices. (Confederation of Finnish Construction Industries RT 10/2019)

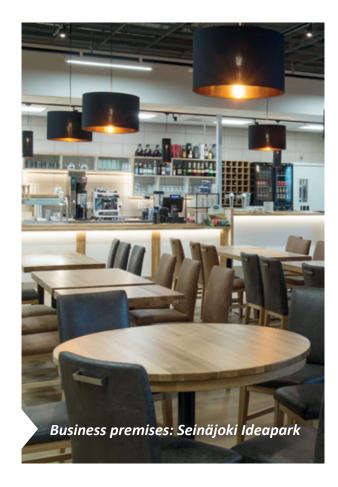
#### **BUSINESS PREMISES**

In the Business Premises service area, Lehto builds office premises, retail premises, logistics, warehouse and production facilities, leisure facilities and large shopping and activity centres. Business premises are designed according to the customers' needs and are built using the structural and design solutions developed or tried and tested by Lehto as well as Lehto's own industrially prefabricated elements. The service area serves local, national and international customers.

Most of the business in the Business Premises service area comprises turnkey projects, where Lehto assumes overall responsibility for both design and construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and designs and builds the property either wholly or partly at its own risk.

Demand for business premises was slight at the beginning of the review period but picked up some in the latter half. There were delays independent of Lehdo in the launch of several projects. Demand for large logistics and commercial buildings declined, but there was greater demand for office and hotel projects. The service area's order backlog rose to EUR 185.2 million (EUR 167.6 million on 31 December 2018).

Net sales in the Business Premises service area declined by 36.1% from the comparison period to EUR 170.8 (267.3) million. The decline in net sales is due to a decrease in the number of projects and the smaller average size of projects. Significant delays in several startup of larger projects also contributed to the decline in net sales.





A total of 24 projects were completed in the review period (31 in 2018), the largest of which was the Ideapark shopping centre in Seinäjoki, measuring about 70,000 m². At the end of the review period, 20 (19) projects were under construction, most notably three hotel projects in the Greater Helsinki area, a logistics centre in Kerava and a Prisma hypermarket in Varkaus.

Lehto has been developing the Hippos2020 project in collaboration with the City of Jyväskylä, Fennia Asset Management Ltd and other investors. In March 2019, Fennia Asset Management Ltd announced that it will no longer continue developing the project. However, Lehto and the City of Jyväskylä will continue and are seeking a new main financier. A project company has been set up for the project. It is responsible for the costs of the development work. A building permit has already been granted for the project, but its implementation involves the standard risks associated with property development, such as acquiring tenants.

During the review year, Lehto started up several construction contracts for business premises measuring under 3,000 m<sup>2</sup>. In addition, Lehto agreed on the construction of several larger projects, notably:

- In June, Lehto and Fennovoima signed a contract for the design and construction of an administrative building and plant office for the Hanhikivi 1 nuclear power plant. The contract is valued at about EUR 30 million.
- In August, Lehto and Meconet Oy agreed on the construction of a new factory in Hirvaskangas, Äänekoski. The project is over 8,000 m² in size.
   Construction began in autumn 2019 and the

production facilities will be completed in spring 2020.

- In November, Lehto began building the ART Hotel in Jätkänsaari, Helsinki. The hotel is operated by Primehotels Oy. The investor is Fennia Asset Management's Terrieri Kiinteistöt fund. Building size is about 6,600 m² and the project employs modern industrial prefabrication, which both speeds up construction and enhances quality. The project will be completed in spring 2021.
- In December, Lehto and Yandex, an IT corporation that runs Russia's largest web search engine, agreed on the construction of a datacenter in Mäntsälä. This project will measure about 10,000 m² and construction began in December. It is expected to be completed in autumn 2020.
- In December, Lehto started to build a Prisma hypermarket in Varkaus with Osuuskauppa PeeÄssä. The project consists of a retail property measuring 12,500 m² that contains a Prisma hypermarket measuring about 7,500 m² and five small retail premises with associated premises. There will be a summer gardening store and 584 parking spaces outside.

#### Complete renovation operations

In early 2019, Lehto wound up its Building Renovation service area and transferred its complete renovation operations to the Business Premises service area. At the same time, the company decided that, 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. Lehto had

committed to a number of such projects even before the discontinuation of the Building Renovation service area.

During the financial year, four significantly loss-making complete renovation projects were completed and substantial warranty repairs were carried out for earlier complete renovation projects. All in all, complete renovation operations caused losses of about EUR 32 million in the financial year.

At the end of the review period, Lehto started up a new complete renovation contract in Helsinki. for which lehto had committed already before the decision to discontinue complete renovation business was made. In this project, an old office property will be renovated and converted into a hotel. The project is valued at about EUR 27 million. In the first half of 2020. Lehto will also start up another complete renovation contract in Helsinki based on an earlier commitment. The project is valued at about EUR 14 million and involves the renovation and conversion of an old educational premises for use as housing. The company has focused on high accuracy in the design, resourcing and preparations for the implementation of these new projects and projects are followed up with specific measures.

#### **SOCIAL CARE AND EDUCATIONAL PREMISES**

In the Social Care and Educational Premises service area, Lehto designs and builds care homes, assistedliving facilities, daycare centres and schools to meet the needs of municipalities and nationwide care and daycare service providers. The 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 fund that invests in properties in the sector. The majority of the properties built by the service area are 1-2-storey wooden buildings, but it is also building an increasing number of diverse and multi-storey concrete buildings.

Net sales of Social Care and Educational Premises declined by 25.6% from the previous year to EUR 87.7 (117.8) million in 2019. Care homes and



assisted-living facilities accounted for EUR 56.7 (97.2) million of net sales, while schools and daycare centres accounted for EUR 31.0 (20.6) million.

Demand for care homes slackened significantly and 10 new care home projects were started up (11 in 2018). During the review period, 14 (28) care home and assisted-living facility units were completed, and 4 (8) were under construction at the end of the period. In addition, one healthcare centre was completed during the period. The average profitability of care home projects weakened significantly year-on-year due to two clearly loss-making projects.

The volume of school and daycare centre construction grew. Three schools were completed during the financial year: Päivölänlaakso (Kerava), Kärkölä and Suutarila (Helsinki). The construction of six new schools and three new daycare centres was started up in the review period. The margins of school projects have varied greatly and on average have been substantially lower than the margins of Lehto's ordinary contract projects.

Lehto plans to downscale the functions of the Social Care and Educational Premises service area and merge them into the Group's other service areas, such that its care home and assisted-living facility functions will be transferred to the Housing service area and its school and daycare centre construction functions to the Business Premises service area. When selecting which projects to implement, particular attention will be paid to ensuring that they are a good fit with Lehto's strategy. The planned combination of business functions

would yield synergy benefits, especially in design, calculation, procurement and production.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 29.2 million (EUR 60.0 million on 31 December 2018). The decline in the order backlog is due to the decrease in the number of care sector properties under construction.

#### HOUSING

In the Housing service area, Lehto builds new housing in apartment buildings, focusing mainly on Finland's growth centres. The majority of Lehto's housing projects are developer contracting projects, in which Lehto designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. Customers include private persons as well as private and institutional investors.

Housing production is divided into two product families: Nero and Deco. In addition, as from the beginning of 2019, the Housing service area has included the pipeline renovations business, which was earlier part of the Building Renovation service area that was discontinued at the beginning of the year.

Most – more than 70% – of Lehto's housing properties are concrete Nero apartment buildings. In the Nero concept, the building frame is largely cast in situ concrete. Thanks to this, the building has good sound insulation properties and enables the use of interesting architectural solutions. Nero properties employ the kitchen/bathroom modules developed



and manufactured by Lehto. These modules include the main electricity, water, ventilation and sewerage solutions for the apartment and building as well as a complete kitchen. The modules are completely prefabricated at Lehto's own factories and transported, well-protected, to the construction site. At the site, the modules are installed in a vertical shaft and connected using a method patented by Lehto. This building method ensures rapid completion of construction, improves quality and produces cost savings.

Today, a growing share of Lehto's housing production comprises wooden housing projects. Apartments in the Deco product family are manufactured as space elements in the factory – the interior surfaces of the apartment are fully finished when it leaves the factory. The use of space elements shortens the duration of onsite construction work. Also, the technique ensures that wooden interior structures do not become wet during the construction phase. Deco apartments involve a substantially higher amount of industrial prefabrication than Nero apartments.

The Optimi product family, which will be phased out, consists of detached houses built in area construction projects. Their implementation emphasises architecture and functional space solutions. Optimi production has not been able to effectively harness Lehto's strategic competitive factors: strong planning control, standardisation and factory production. For this reason, Lehto has decided to gradually phase out the Optimi product family and focus instead on the growing market for wooden apartment buildings.

Demand for housing remained at a good level during the review period, although the sales periods lengthened.

More new housing was on offer in the market than before, which led to slightly tighter competition and price pressure in areas with a high level of supply.

Net sales in the Housing service area grew by 21.7% from the previous year to EUR 409.2 (336.3) million in the review period. Net sales growth was generated by the increase in housing production and sales in all major market areas. Housing sales periods were longer than last year and the greater supply of housing in the market has reduced housing prices somewhat, especially in the last quarter. Raw material and subcontracting costs have risen slightly since last year, due to which the average margin on housing projects saw a year-on-year decline. Some project development failures also weighed on the result. As from the beginning of 2019, the Housing service area has included housing built under complete renovation projects. The comparative information has been adjusted accordingly.

During the review period, a total of 1,837 (1,929) housing units were sold, 1,499 in developer contracting projects and 338 in contract projects. On 30 April 2019, Lehto Group Plc's subsidiary Lehto Asunnot Oy and the German company DWS Real Estate GmbH ("DWS"), which is part of the Deutsche Bank Group, signed an agreement according to which Lehto will build and sell a portfolio of 542 apartments for DWS. The portfolio will contain six separate projects located in Espoo, Turku, Kirkkonummi, Riihimäki and Jyväskylä. Four of these six projects were completed during the financial year; two of them have been sold and two will be sold in the 2020 financial year. The remaining two projects will be completed in 2020. In accordance with the contract, Lehto will sell the apartments leased, and the portfolio's





final sale price will be determined by the actual occupancy rate and rental prices. The projects will be handed over to clients individually on completion, at which point each project will also be paid for. Lehto will handle all financing and bank loans for the projects during the construction phase.

#### SOLD HOUSING UNITS DURING THE REVIEW PERIOD

	1-12/2019	1-12/2018
Contract	338	758
Developer contract	1,499	1,171
Sold housing units during the review period, total	1,837	1,929

During the review period, 2,872 (2,159) new housing units were completed and at the end of the review period, 1,485 housing units were under construction (3,322 on 31 December 2018). The number of unsold housing units under construction declined and amounted to 518 at the end of the review period (1,715 on 31 December 2018). Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other Finnish growth centres: the Tampere, Turku, Jyväskylä and Oulu regions. The largest housing construction projects currently in progress are in Helsinki Metropolitan Area and in the centre of Oulu.

The table below presents the number of housing units under construction. Contract projects include not only contracts ordered by clients, but also housing construction projects developed by Lehto in which the company sells the entire share capital of the established housing cooperative to the client during the project.

#### HOUSING UNITS UNDER CONSTRUCTION

	1-12/2019	1-12/2018
Contract	628	1,263
Developer contract	857	2,059
Housing units under construction, total	1,485	3,322
of which sold	967	1,607

#### **UNSOLD (AVAILABLE OR RESERVED)**

	1-12/2019	1-12/2018
Under construction	518	1,715
Completed	276	72
Unsold, total	794	1,787
including DWS units	402	462

The number of completed and unsold housing units stood at 276 at period end (72 on 31 December 2018).

In March, Lehto launched the Deco wooden apartment building concept, which makes it possible to build a four-storey wooden building as a space element solution. The concept provides good support to the company's strategy, as it effectively harnesses industrial manufacturing and standardised solutions, for instance. Product development was largely also driven by demand and megatrends such as ecology and Finnishness. The modules of Lehto's wooden blocks of flats are built using domestic wood materials at the company's factories in Finland. The construction of wooden blocks of flats is also interesting due to the

changes in the business environment, as such projects are currently supported, such as by zoning plots suitable for this purpose in key locations in growth centres. In addition, wooden blocks of flats are an excellent match for current additional and complementary construction projects because the construction site phase that disturbs the neighborhood is so short.

During the review period, the availability and terms of financing for housing projects became significantly more stringent. In addition to weaker availability and stricter terms, the tightening of the financial market increases the financial expenses of projects and also slows down Lehto's startup of developer contracted housing projects. As one alternative means of financing housing projects, Lehto plans to market selected RS sites with no housing company loans. In this arrangement, the end customer independently organises financing from a bank of their choosing. The benefits are an even lower purchase price and often a higher loan-to-value ratio. Lehto is also looking into financial solutions that would serve as alternatives to ordinary bank-based financing to finance developer contracting projects.

The order backlog of the Housing service area at the end of the review period was EUR 267.4 million (EUR 428.0 million on 31 December 2018). The order backlog declined particularly in the last quarter, when 1,385 apartments were completed and handed over. The housing production order backlog includes the proportion of started developer contracting projects that has not 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.

At the beginning of June, Juha Höyhtyä, M.Sc. (Civil Eng.), MBA, was appointed as the new Executive Vice President of the service area and as a member of the Group's Executive Board. Mr Juha Höyhtyä has long experience of the construction business. He has worked for the construction company Lemminkäinen for a total of 24 years both in Finland and abroad. Most recently, he served as CEO of Telinekataja Oy, in which position he worked for approximately four years. Pasi Kokko, the previous head of the service area, left Lehto's employ at the turn of March and April.

#### Pipeline renovation

The Housing service area has taken over the well-organised and profitable pipeline renovations previously carried out by the now-discontinued Building Renovation service area. Demand for pipeline renovations remained good, with eight pipeline renovation projects completed during the review period, and nine under construction at period end. Net sales in the pipeline renovation business grew by 11% from the previous year to EUR 31.6 million. In future, pipeline renovations are looking to operate in the Tampere economic area, too.

#### **SWEDISH OPERATIONS**

During the review period, the Swedish unit focused on completing the ongoing daycare centre project as well as starting up its wooden apartment building business based on space elements.

The daycare centre project comprises daycare centres being built in the municipality of Botkyrka using space elements. There have been significant problems in coordinating factory production and on-site work phases and fulfilling the requirements of the customer. As a result, the project has posted a loss. Initially, the project included three daycare centres, two of which have been completed. The construction of the third daycare centre has not been started yet. Lehto is currently negotiating with the client to terminate the contract.

Lehto has decided to focus its Swedish operations on the construction of wooden apartment buildings implemented with standardised space elements. In the early phases, the projects will be carried out as fixed-price contracts. The development work on the wooden apartment buildings was carried out in 2019 and Lehto expects that the first project will be started up in mid-2020.

Due to the loss-making daycare centre project, Swedish operations have a negative impact of EUR 11.9 million on the 2019 consolidated operating profit.

On 5 March 2019, Thomas Perslund took up his position as the new Managing Director of Lehto Sverige. He

has earned a name for himself in Swedish construction thanks to his leading roles in projects for Stockholm's Friends Arena, Oscar Properties, NCC and the City of Stockholm. He has more than 20 years of experience in the field.

#### **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 for its own use. Lehto has production facilities in Oulainen, Hartola, Humppila, Siikajoki and Ii, totalling about 50,000 m².

During the review period, personnel capacity was reduced in factory production. Lehto engaged in employee cooperation negotiations in May-June, as a result of which 51 employees were terminated and 53 laid off temporarily. In September, Lehto started new employee cooperation negotiations that also covered factory operations personnel. The redundancies, part-time work and layoffs implemented due to the negotiations corresponded to a reduction of about 100 person-years.





### **Balance sheet and financing**

Consolidated balance sheet, EUR million	31 Dec 2019	31 Dec 2018
Non-current assets	55.8	37.7
Current assets		
Inventories, excluding IFRS 16 assets	210.3	238.2
Inventories, IFRS 16 assets	40.1	
Current receivables	86.3	139.0
Cash and cash equivalents	59.2	53.4
Total assets	451.8	468.3
Equity	112.1	162.4
Financial liabilities	142.4	115.9
Lease liabilities	46.8	
Advances received	73.2	88.3
Other payables	77.3	101.8
Total equity and liabilities	451.8	468.3

Lehto adopted the new IFRS 16 Leases standard as of 1 January 2019. Adoption of this standard does not have a significant impact on Lehto's net sales or operating result, but affects several balance sheet key indicators, such as net gearing ratio (which will increase) and equity ratio (which will decrease). The changes to key indicators caused by adoption of the standard do not have an unfavourable impact on Lehto's covenants.

The most significant effects of applying IFRS 16 in the 31 December 2019 balance sheet are: an increase of EUR 46.8 million in financial liabilities, an increase of EUR 6.6 million in non-current assets, and an increase

of EUR 40.1 million in inventories. Long-term plot leases for construction projects are presented under inventories.

The company's financial standing weakened during the financial year and, accounting for lease liabilities, the equity ratio was 29.6% and net gearing ratio 115.9% at the end of the year. The equity ratio, adjusted for comparability with previous periods and without the lease liabilities under IFRS 16, stood at 33.8% and the net gearing ratio was 74.1%. Lehto applies a simplified approach during the transitional period and will not adjust its comparison figures.

#### **EQUITY AND LIABILITIES**

Equity declined to EUR 112.1 (162.4) million during the financial year. The decrease in equity was largely due to losses of EUR 35.7 million during the financial year and dividends of EUR 14.0 million paid in April.

Financial liabilities grew to EUR 142.4 (115.9) million. Liabilities grew due to loss-making operations. Liabilities related to actual construction projects declined during the financial year.

Advances received declined to EUR 73.2 (88.3) million. Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities decreased to EUR 77.3 (101.8) million and they include liabilities related to ordinary business operations, such as trade payables of EUR 29.8 (40.3) million and VAT debt of EUR 12.8 (19.7) million.

#### **ASSETS**

Non-current assets amounted to EUR 55.8 million at the end of the review period (EUR 37.7 million on 31 December 2018). Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 12.1 (12.7) million in factory buildings, EUR 7.2 (8.5) million in machinery and equipment and EUR 2.1 (0.9) million in capitalised development costs.

Inventories grew to EUR 250.4 (238.2) million. The reason behind this growth is the recognition of



EUR 40.1 million in lease liabilities in the balance sheet in accordance with IFRS 16. The value of inventories not related to lease liabilities declined by EUR 27.9 million. This is due to the decrease in construction projects in progress.

Current receivables declined to EUR 86.3 (139.0) million, including trade receivables of EUR 50.5 (62.2) million and percentage-of-completion receivables of EUR 29.6 (71.1) million. The decline in receivables is due to the lower business volume.

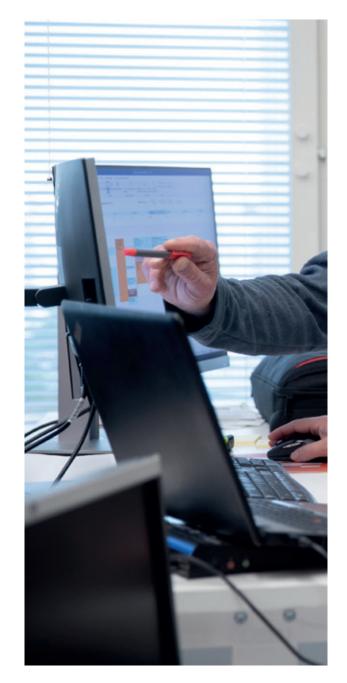
Cash flow statement, EUR million	1–12/2019	1-12/2018
Cash flow from operating activities		
Result for the period + adjustments to accrual-based items	-34.3	34.5
Change in net working capital	23.2	-52.8
Total cash flow from operating activities	-11.1	-18.3
Cash flow from investments	-6.6	-13.7
Cash flow from financing	23.5	17.5
Change in cash and cash equivalents	5.9	-14.5
Cash and cash equivalents at the beginning of the period	53.4	68.0
Cash and cash equivalents at the end of the period	59.2	53.4

Net cash flow from operating activities was EUR -11.1 (-18.3) million, which includes a positive impact of EUR 23.2 (-52.8) million due to the decrease in net working capital. The decline in net working capital was caused by the decrease in inventories and receivables during the review year. Net working capital was at its highest at the end of the third quarter and decreased significantly in the fourth quarter when housing projects were completed and the care home portfolio in the balance sheet was sold.

Net cash flow from investments was EUR -6.6 million, of which EUR -4.1 million relates to tangible assets, mainly replacement investments, EUR -3.6 million to intangible assets and EUR 1.6 million from sales of associate.

Net cash flow from financing was EUR 23.5 million positive. A total of EUR 132.6 million was drawn in loans and EUR 90.1 million was repaid. Cash flow from financing also includes cash expenses of EUR 14.0 million due to dividends paid.

In November 2018, Lehto signed a EUR 50 million financing agreement with OP Corporate Bank plc and Nordea Bank plc. This financing agreement is a Revolving Credit Facility (RCF) that is valid for three years. The agreement employs the covenants for profitability and indebtedness. In March 2019, Swedbank AB was added to this credit facility with a EUR 25 million share, increasing the total sum to FUR 75 million.





The covenant levels of the RCF financing agreement were renegotiated with financiers during the review period. As a result of the negotiations, the full amount of the RCF is limited to EUR 54 million and this full amount was in use on the closing date.

#### **Personnel**

The average number of personnel during the review period was 1,454 (1,457). The number of personnel at period end was 1,274 (1,552 on 31 Dec 2018). About half of the Group's personnel are salaried employees and half employees working at construction sites.

During the review year, the company conducted two employee cooperation negotiations. Lehto engaged in employee cooperation negotiations in May-June, as a result of which 51 employees at the Hartola and Oulainen factories were terminated and 53 laid off temporarily. The redundancies, part-time work and layoffs implemented due to the September-November negotiations corresponded to a reduction of about 144 person-years and are expected to yield annual cost-savings of slightly under EUR 7 million. The majority of the measures affected factory production, in which personnel will be laid off in 2019-2020, with a total effect of 100 person-years.

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 19 March 2019, Lehto carried out a directed share issue free of consideration related to the reward payment for the performance period 2016 of the incentive plan adopted in 2016. In the share issue, 58,691 new Lehto Group Plc shares were issued free of consideration to 25 Group key employees in accordance with the terms and conditions of the plan.

On 1 April 2019, Lehto announced that Kaarle Törrönen, Vice President, Human Resources, had been appointed to the Executive Board. He has worked for over 33 years in various leading HR and planning positions in the Finnish Defence Forces.

## 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 building 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 1.0 million. The most significant development investments are related to factory-made product design and the development of product factory operations.





# Responsibility and environmental issues

The built environment has a major impact on the development of the urban landscape. The trend in urban development is towards sustainable housing, mobility and services. Vast amounts of materials are moved in construction, from land masses to a variety of products and coatings. The construction industry plays a major role in reducing construction's carbon footprint and cutting down on waste. The construction cluster is Finland's largest employer and many young people work in the industry. The construction industry is also heavily male-dominated.

Responsibility is one of the values that guides Lehto's operations. The key elements that enhance Lehto's productivity and competitiveness — design control and the use of standardised building elements and modules that are prefabricated in our own factories — also form the core of our responsibility efforts. 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 responsibility of business practices.

The CEO is responsible for Lehto Group's responsibility and the CFO heads up responsibility reporting.

Operational responsibility work is managed on a decentralised basis in accordance with our key focal 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 seven 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.

# Other significant events during the financial period

On 18 March 2019, Lehto Group Plc's Board of Directors decided, under the authorisation of the Annual General Meeting, to carry out a directed share issue free of consideration related to the reward payment for the

performance period 2016 of the incentive plan adopted by Lehto in 2016. Information on the launch as well as the key terms and conditions of the plan has been announced in a stock exchange release published on 20 December 2016. In the share issue, 58,691 new Lehto Group Plc shares (the "Issue Shares") were issued free of consideration to 25 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. After the share issue, the total number of Lehto shares and the votes they confer is 58,309,443.

On 1 April 2019, Lehto announced that Kaarle Törrönen, Vice President, Human Resources, had been appointed to the Executive Board, while Pasi Kokko, who had served as the Executive Vice President of Housing and a member of the Executive Board, was leaving Lehto.

On 9 May 2019, Lehto downgraded its financial outlook for 2019. Lehto announced that the Group's net sales for 2019 will be on par with 2018 (EUR 721.5 million in 2018) and that operating profit will be approximately 2–6% of net sales (5.2% in 2018). The factors underlying the revised outlook for operating profit were the losses on complete renovation projects, the higher-than-expected costs of starting up business in Sweden, the loss on the first daycare centre project, the weaker margins of care home and business premises projects, and delays in the startup of new projects.

**On 5 June 2019,** Lehto announced that Juha Höyhtyä had been appointed as Executive Vice President of the Housing service area and as a member of the Group's Executive Board.



On 6 August 2019, Lehto published a release in which it estimated that the Group's net sales for 2019 will be either at the same level or lower than in 2018 (EUR 721.5 million in 2018) and that the full-year 2019 operating result will be in the red due to the steep losses posted in the first half of the year (operating profit of EUR 37.2 million, or 5.2% of net sales in 2018). The outlook for net sales was weakened by delays in the startup of business premises projects. The major reason behind the weaker outlook for operating profit is the significantly higher than expected losses on complete renovation projects. The outlook for operating profit was also weakened by individual loss-making projects in the Social Care and Educational Premises and Business Premises service areas and a slight decline in the selling prices of apartments.

On 19 August 2019, Lehto announced that Toni Kankare had been appointed as Chief Commercial Officer and Jukka Haapalainen as Executive Vice President of Factory Production. The previous head of factory production, Pekka Korkala, had left his position at his own request. Kankare and Haapalainen were also appointed as members of the Group's Executive Board.

On 1 November 2019, Lehto announced that it expected consolidated net sales to be lower in 2019 than in 2018 (net sales in 2018: EUR 721.5 million). Even though the company estimated that the fourth-quarter operating result would be positive, the operating result for the second half of the year would be negative due to the operating loss in the third quarter (operating loss in January-June 2019: EUR 27.5 million). The release stated that the main factors impacting on net sales and operating result in the second half of the year were the

further losses on complete renovation projects in the third quarter, the pushing back of the completion dates of certain housing projects to 2020, and the weakening of the average margin in housing projects.

## Risks and factors of uncertainty

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

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

In its business operations, Lehto is also exposed to risks relating to the availability of financing, overall economic trends and political decision-making and other risks relating to the activities of the public sector. As part of its operational business, Lehto continuously concludes agreements with various parties. The related risks

include the technical, legal and commercial condition of the acquired property. The unique and complex construction projects in Lehto's Business Premises service area, in particular, always involve risks related to implementation and costs.

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

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

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



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

As a result of business growth, working capital is tied up in inventories and receivables in particular. In a situation where the company's business is expanding simultaneously in several service areas, large purchase commitments for construction sites are realised and receivable payments from customers are delayed, the company may run into a situation where 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.

The main risks related to the net sales, result and financial position during the current financial period are the decrease in housing sales volume and price level, delays in the startup of care home, school and business premises projects, and higher-than-expected project costs and thereby the adequacy of financing.

Lehto seeks to manage these risks with proactive sales efforts, monitoring sales trends, precise project monitoring and rapid corrective actions. Lehto has launched a Group-wide restructuring programme that seeks to improve project margins and eliminate negative deviations in them. The programme focuses especially on improving the quality of project preparation prior to the construction phase.

In order to ensure sufficient financing, Lehto is actively discussing various financing solutions with providers of finance.

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.

## **Flagging notifications**

On 25 January 2019, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from OP Fund Management Company Ltd. According to the notification, the total Lehto shares and votes held by the OP-Suomi Pienyhtiöt and OP-Suomi investment funds, which are managed by OP Fund Management Company Ltd, had decreased below the five (5) per cent limit to 4.71% on 23 January 2019.

## **Annual General Meeting 2019**

The Annual General Meeting of shareholders of Lehto Group Plc took place in Oulu in the premises of Technopolis in the address Elektroniikkatie 8 on 29 March 2019. The Annual General Meeting approved the financial statements for 2018 and discharged the Members of the Board of Directors, the Chairman of the Board of Directors, and the CEO from liability.

The Annual General Meeting resolved in accordance with the proposal by the Board of Directors to pay dividend of EUR 0.24 per share, a total of EUR 13,994,266.32 for the financial period that ended on 31 December 2018. The dividend will be paid to shareholders who on the record date for the dividend payment, 2 April 2019, are recorded in the shareholders' register held by Euroclear Finland Ltd. The dividend payment date is 9 April 2019.

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 Martti Karppinen, Mikko Räsänen and Pertti Korhonen were re-elected and Anne Korkiakoski and Seppo Laine 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 2020.

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.

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

The Annual General Meeting 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, so that the maximum quantity purchased be 5,800,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki in accordance with its

rules or using another method. The consideration paid for the purchased shares shall be based on the market price. The authorisation entitles the Board of Directors to decide on the purchase of shares also otherwise than in proportion to the shares owned by the shareholders (directed purchase). Then, there shall be weighty financial reasons for the company to purchase its own shares. Shares may be purchased to implement arrangements linked to the company's business operations, to implement the company's share-based incentive programmes or otherwise to be transferred on or the shares may be cancelled. The purchased shares may also be held by the company. The Board of Directors is authorised to make decisions on all other terms and matters pertaining to the purchase of own shares. The purchase of own shares reduces the unrestricted equity of the company. The term of the authorisation extends until the Annual General Meeting 2020.

The Annual General Meeting authorised 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 without consideration. Contrary to the shareholders' preemptive rights, new shares may be issued directly and own shares held by the company transferred directly 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 considering the benefit of all its shareholders. The Board of Directors

is authorised to decide on all other terms and matters pertaining to a share issue, to the granting of special rights entitling to shares, and to the disposal of shares. Among other things, the authorisation may be used to develop the capital structure, to expand the ownership base, as consideration in M&A transactions, when acquiring assets linked to the operations of the company, and to implement incentive programmes. The term of the authorisation extends until 31 October 2021. The authorisation shall replace the company's previous share issue and option right authorisations.

The Annual General Meeting resolved to amend the Rules of Procedure of the Shareholders' Nomination Committee in a way that the biggest shareholders would be selected on the last September date of public trading instead of such date in October.

### **Events after the review period**

On 3 February 2020, after the end of the review period, Lehto specified its guidance for 2019 and outlook for 2020. Lehto reported that according to its unaudited calculations, net sales for 2019 saw a year-on-year decrease to about EUR 667 million and the operating loss amounted to about EUR 42 million, while fourth-quarter net sales were around EUR 270 million and the operating result was breakeven.

## **Annual General Meeting 2020**

The Annual General Meeting of Lehto Group Plc will be held on Tuesday 14 April 2020 at 1.00 p.m. at Elektroniikkatie 8, Oulu.



## 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 funds on the balance sheet of 31 December 2019 are EUR 68,719,704.44, of which the operating result is EUR -99,211.31.

The Board of Directors will propose to the Annual General Meeting to be held on 14 April 2020 that no dividends be paid for the 1 January–31 December 2019 financial year.

### **Outlook for 2020**

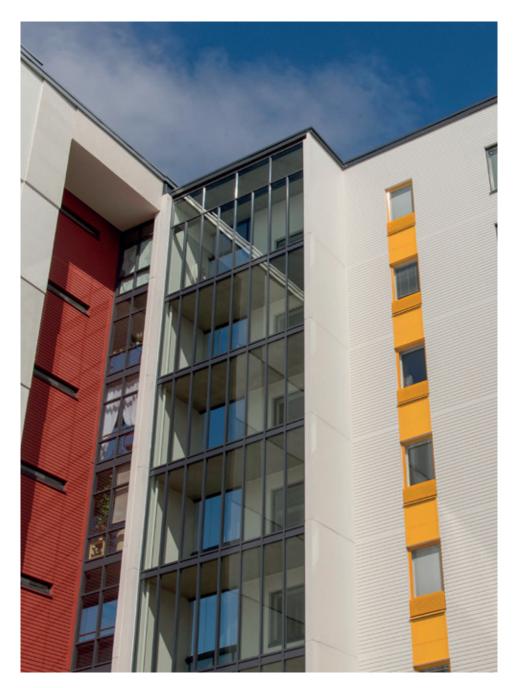
Lehto estimates that the Group's net sales in 2020 will be approximately 10 % lower than in 2019 and that operating result is positive.

The net sales outlook is based on estimation of decelerating housing market and declining volume in Lehto's school and care home business. Volumes in business premises are estimated to remain at the level of previous year.

The operating profit outlook is influenced by ending of loss-making complete renovation projects and other single loss-making projects as well as estimated positive effects of restructuring activities that were started in 2019 and are still being executed.

Vantaa, 19 February 2020

Lehto Group Plc
Board of Directors



56



LEHTO GROUP PLC

## **Financial Statements**





## **Financial Statements 2019**

Fi	nancial Statements (audited)	. 59
	Consolidated statement of Comprehensive Income, IFRS	. 59
	Consolidated Balance Sheet, IFRS	. 60
	Consolidated Cash Flow Statement, IFRS	. 61
	Consolidated statement of Changes in Equity, IFRS	. 62
	Notes to the consolidated Financial Statements	. 63
	Income Statement for the parent company, FAS	. 85
	Balance Sheet for the parent company, FAS	. 86
	Cash Flow Statement for the parent company, FAS	. 87
	Notes to the Financial Statements for the parent company	. 88
	Board of Directors' proposal for the distribution of profits	. 91
	Signatures to the Annual Report and Financial Statements	. 91
	The Auditor's Note	. 91
Gı	roup Key Figures	. 92
Sh	nares and Shareholders	. 94
Αι	uditor's Report	. 95



59

## **Consolidated statement of Comprehensive Income, IFRS**

	Note	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Net sales	2	667,701	721,479
Other operating income	3	1,500	2,988
Changes in inventories of finished goods and work in progress		-35,745	107,063
Capitalised production		46	8,001
Raw materials and consumables used		-224,967	-331,740
External services		-335,618	-359,467
Employee benefit expenses	4	-82,214	-82,856
Depreciation and amortisation	5	-8,203	-3,492
Other operating expenses	6	-24,337	-24,794
Operating result		-41,836	37,181
Financial income	7	262	171
Financial expenses	7	-3,973	-1,184
Share of associated company profits (losses)	14	0	44
Profit before taxes		-45,547	36,213
Income taxes	8, 16	9,797	-7,504
Profit for the financial year		-35,750	28,709

	Note	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Profit attributable to			
Equity holders of the parent company		-35,750	28,708
Non-controlling interest		1	1
		-35,750	28,709
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	22	-146	
		-146	0
Comprehensive profit attributable to			
Equity holders of the parent company		-35,897	28,708
Non-controlling interest		1	1
		-35,896	28,709
Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share	9		
Earnings per share, basic		-0.61	0.49
Earnings per share, diluted		-0.61	0.49



## **Consolidated Balance Sheet, IFRS**

ASSETS	Note	31 Dec 2019	31 Dec 2018
Non-current assets			
Goodwill	10	4,624	4,624
Other intangible assets	11	4,697	2,242
Property, plant and equipment	12	26,577	22,940
Investment properties	13	730	737
Investments in associated companies	14		859
Other financial assets	15	775	214
Receivables	16	1,915	24
Deferred tax assets	17	16,473	6,093
Non-current assets total		55,790	37,731
Current assets			
Inventories	18	250,441	238,213
Trade and other receivables	19	86,307	136,584
Current tax assets	19	0	2,383
Financial assets at fair value through profit or loss	20	313	311
Cash and cash equivalents	21	58,911	53,070
Current assets total		395,972	430,561
TOTAL ASSETS		451,762	468,292

EQUITY AND LIABILITIES	Note	31 Dec 2019	31 Dec 2018
Equity			
Share capital		100	100
Invested non-restricted equity reserve		69,155	69,155
Translation adjustment		-319	-173
Retained earnings		78,934	64,302
Profit for the financial year		-35,750	28,708
Capital attributable to equity holders of the parent company		112,120	162,093
Non-controlling interest		6	264
Equity, total	22	112,126	162,357
Non-current liabilities			
Deferred tax liabilities	17	552	715
Provisions	23	9,384	10,375
Financial liabilities	24	5,928	20,101
Lease liabilities	24	44,658	
Other non-current liabilities	25	122	5,591
Non-current liabilities, total		60,645	36,782
Current liabilities			
Advances received	25	73,220	88,252
Trade and other payables	25	67,110	83,360
Current income tax liabilities	25	83	1,738
Financial liabilities	24	136,431	95,802
Lease liabilities	24	2,147	
Current liabilities, total		278,992	269,153
Liabilities, total		339,636	305,935
TOTAL EQUITY AND LIABILITIES		451,762	468,292



## **Consolidated Cash Flow Statement, IFRS**

Note	31 Dec 2019	31 Dec 2018
Cash flow from operating activities		
Result for the financial year	-35,750	28,709
Adjustments:		
Non-cash items	3,247	4,852
Depreciation and amortisation	8,203	3,492
Share of associated company profits (losses)		-44
Financial income and expenses	3,711	1,013
Capital gains	-843	-442
Dividends received	-0	-0
Income taxes	-9,797	7,504
Changes in working capital:		
Change in trade and other receivables	48,912	-26,161
Change in inventories	27,893	-105,339
Change in trade and other payables	-53,578	78,657
Interest paid and other financial expenses	-3,338	-971
Financial income received	262	171
Income taxes paid	-19	-9,753
Net cash from operating activities	-11,098	-18,312

	Note	31 Dec 2019	31 Dec 2018
Cash flow from investments			
Investments in property, plant and equipment		-4,051	-14,579
Investments in intangible assets		-3,601	-1,323
Capital gains from other investments			166
Sales of associated companies		1,638	291
Proceeds from sale of property, plant and equipment and intangible assets		63	9
Financial assets at fair value through profit or loss		-577	1
Repayments of loan receivables			1,746
Loans granted		-36	
Dividends received		0	0
Net cash from investments		-6,563	-13,689
Cash flow from financing			
Loans drawn	24	132,644	109,342
Loans repaid	24	-90,109	-72,036
Lease liabilities paid	24	-4,719	
Acquisition of non-controlling interest		-280	-45
Dividends paid		-13,995	-19,797
Net cash used in financing activities		23,541	17,464
Change in cash and cash equivalents (+/-)		5,880	-14,537
Effects of exchange rate change		-37	-89
Cash and cash equivalents at the beginning of the financial year		53,381	68,008
Cash and cash equivalents at the end of the financial year	20, 21	59,224	53,381



## **Consolidated statement of Changes in Equity, IFRS**

#### CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

	CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
	Share capital	Invested non- restricted equity reserve	Translation adjustment	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2018	100	69,155	-79	81,271	150,447	271	150,718
Effect of IFRS 2 standard amendment				2,299	2,299		2,299
Adjusted equity at 1 January 2018	100	69,155	-79	83,569	152,746	271	153,017
Comprehensive income							
Profit or loss for the financial period				28,708	28,708	1	28,709
Total comprehensive income				28,708	28,708	1	28,709
Transactions with equity holders							
Distribution of dividends				-19,797	-19,797		-19,797
Share-based compensation				514	514		514
Other changes			-94	16	-78	-8	-86
Transactions with equity holders, total			-94	-19,267	-19,361	-8	-19,369
Equity at 31 December 2018	100	69,155	-173	93,010	162,093	264	162,357
Equity at 1 January 2019	100	69,155	-173	93,010	162,093	264	162,357
Comprehensive income							
Profit or loss 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
Other changes				-27	-27		-27
Transactions with equity holders, total				-14,076	-14,076		-14,076
Changes in holdings in subsidiaries							
Acquisitions of non-controlling interest not resulting change in control						-259	-259
Equity at 31 December 2019	100	69,155	-319	43,184	112,120	6	112,126



### **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 19 February 2020. 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 2019. 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 Group adopted the IFRS in the financial reporting on 1 January 2013 and applied in this connection IFRS 1 First-time Adoption of International Financial Reporting Standards. The date of transition was 1 January 2012.

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.

The Group has applied a relief in accordance with IFRS 1 from applying IFRS 3 on business transactions before the transition date; therefore, the deemed cost of goodwill is measured at carrying amount in accordance with previous GAAP.



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 cashgenerating 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 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 Group has no such companies. 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.

#### 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 in two categories: 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 includes 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

IFRS 16 Leases has replaced IAS 17 as from 1 January 2019. 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.

The Group has adopted the standard as from 1 January 2019 using a simplified procedure, without adjusting comparative information. The reconciliation at the date of transition is presented in the notes under "Leases".

#### 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. Property construction projects in which the buyer has not control over the property are recognised upon delivery when the property has been completed and control has been 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 progressare discloused in Note "Trade payables and other non-interest-bearing liabilities" under "Advances received, revenue recognised upon delivery".



#### 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, raw materials and consumables used, external 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 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

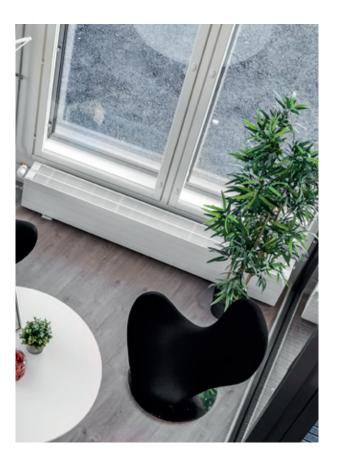
The following new and amended standards relating to preparing consolidated financial statements must be applied in financial periods starting on 1 January 2019 or thereafter.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 and IAS 28 Investments in Associates and Joint Ventures
- Amendments to IFRS 19
- Annual improvements to IFRS, 2015-2017 cycle

IFRS 16 "Leases", supersedes IAS 17 and Lehto adopted the new IFRS 16 Leases standard as of 1 January 2019. The standard requires all leases, with some exceptions, to be recognised as assets and liabilities in the lessee's balance sheet. At the time of adoption on 1 January 2019, the lease liability amounted to EUR 110 million and the corresponding fixed asset to EUR 9 million and inventories to EUR 101 million. Adoption of this standard does not have a significant impact on Lehto's net sales or operating result, but affects several balance

sheet key indicators, such as net gearing ratio (which will increase) and equity ratio (which will decrease). The Group uses a simplified procedure in the adoption of the standard, without adjusting comparative information. Leases are disclosed in accounting principles under header "Leases" and in notes "Leases".

New or amended standards and interpretations, with the exception of IFRS 16, 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.

Profit or loss	2019	2018
Net sales	667,701	721,479
of which in Finland	665,740	713,118
of which in Sweden	1,961	8,361
Other operating income	1,500	2,988
Other operating expenses	-702,834	-683,794
Depreciation and amortisation	-8,203	-3,492
Operating result	-41,836	37,181
Interest income	262	171
Interest costs	-3,973	-1,184
Shares of associated company results		44
Segment's profit/loss before income taxes	-45,547	36,213
Assets		
Segment's assets	451,762	468,292
Investments in associated companies		859
Investments	3,971	15,902
Liabilities		
Segment's liabilities	339,636	305,935

#### Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 85.9 million in 2019 (EUR 81.6 million in 2018), corresponding to approx. 13% (11%) of the segment's net sales.

In 2019, the share of net sales of the largest individual customer was 8% (6% in 2018).

#### 2. NET SALES

	2019	2018
Revenue recognised over time	349,099	463,577
Revenue recognised upon delivery	317,979	257,416
Rental income	623	487
Total	667,701	721,479

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 53.2 (69.3) million.



#### 3. OTHER OPERATING INCOME

	2019	2018
Rental income	82	75
Grants	23	97
Damages	332	133
Capital gains	862	460
Change in estimated additional purchase price liabilities from acquired business		1,939
Other income	202	284
Total	1,500	2,988

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

	2019	2018
Salaries and wages	67,368	65,686
Share-based incentives, portion to be paid out in cash	182	879
Share-based incentives, to be paid out in shares	431	714
Pension costs- defined contribution plans	11,772	12,239
Other personnel costs	2,461	3,339
Total	82,214	82,856

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

Number of personnel in average during the year, Group	2019	2018
Salaried employees	742	720
Workers	712	737
Total	1,454	1,457

Number of personnel at the end of the financial year, Group	2019	2018
Salaried employees	674	772
Workers	600	780
Total	1,274	1,552
5. DEPRECIATION AND AMORTISATION		
Depreciation and amortisation of property, plant and equipment	2019	2018
Machinery and equipment		
Machinery and equipment	2,539	2,101
Machinery and equipment, right-of-use asset	206	
Properties		
Properties in own use	718	421
Business premises, right-of-use asset	1,705	
Inventories, right-of-use asset	1,769	
Other tangible assets	111	9
Total	7,050	2,531
Depreciation and amortisation of intangible assets	2019	2018
Customer relationships	300	481
Other intangible assets	845	460
Total	1,145	941
Depreciation of investment properties	2019	2018
Buildings and structures	7	20
Total	7	20
Depreciation and amortisation, total	8,203	3,492



#### **6. OTHER OPERATING EXPENSES**

	2019	2018
Voluntary personnel expenses	2,871	3,223
Business premises expenses	1,219	2,552
Equipment expenses	3,281	3,761
Travel expenses	3,722	3,428
Product development expenses	401	117
Office expenses	914	1,299
Marketing expenses	4,198	2,399
Administrative services	2,225	1,701
Reduction from expected credit loss	51	12
Other operating expenses	5,455	6,303
Total	24,337	24,794

Fees paid to auditor:	2019	2018
Audit fees	244	280
Certificates and statements	46	18
Other services	118	75
Total	408	373

#### 7. FINANCIAL INCOME AND EXPENSES

Financial income	2019	2018
Dividend income	0	0
Other financial income	262	171
Total	262	171

	2010	2040
Financial expenses	2019	2018
Interest costs	3,740	1,469
Interest costs from lease liabilities	1,873	
Capitalised interest costs	-2,973	-915
Other financial expenses	1,334	630
Total	3,973	1,184
Financial income and expenses, total	-3,711	-1,012
8. INCOME TAXES		
	2019	2018
Current income tax	712	8,416
Change deferred tax assets	-10,347	-1,199
Change deferred tax liabilities	-163	287
Total	-9,797	7,504
Reconciliation of the tax expense in the income		
statement and taxes calculated at the tax rate of Group		
domicile country	2019	2018
Tax rate	20.0%	20.0%
Profit before taxes	-45,547	36,213
Taxes calculated at the tax rate of the domicile country	-9,109	7,243
Tax-exempt income	-945	-136
Non-deductible expenses	130	397
Taxes for the previous financial years	523	0
Effect of foreign subsidiaries' different tax rates	-395	
Other items	0	1

Total

7,504

-9,797



#### 9. SHARE-BASED KEY FIGURES

	2019	2018
Profit for the financial year attributable to equity holders of the parent company	-35,750	28,708
Issue-adjusted average number of shares during the year, basic	58,296,740	58,250,752
Earnings per share, basic, EUR/share	-0.61	0.49
Issue-adjusted average number of shares during the year, diluted	58,424,817	58,380,598
Earnings per share, diluted, EUR/share	-0.61	0.49
Issue-adjusted average number of shares at the end of year	58,309,443	58,250,752
Equity / share	1.92	2.78
Dividend / share	_ *)	0.24
*) Dividend proposal		
10. GOODWILL		

	2019	2018
Goodwill	4,624	4,624

#### Impairment tests

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 2020

approved by the company's management and the strategic forecasts for 2021-2024

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 2019 financial statements is 8.06% (7.92% in 2018).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2018. The actual cash flows for 2019 were significantly lower than this estimate due to unsuccessful projects. No material changes with an impact on expected cash flow from operations occurred in the business environment compared with the previous financial year. Impairment testing on 31 December 2019 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

	Customer relation-	Other intangible	
Intangible assets 2019	ships	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

	Customer relation-	Other intangible	
Intangible assets 2018	ships	assets	Total
Acquisition cost at 1 Jan. 2018	4,282	2,027	6,309
Increases		1,052	1,052
Acquisition cost at 31 Dec. 2018	4,282	3,079	7,361
Accumulated depreciation and amortisation at 1 Jan. 2018	-2,976	-1,202	-4,178
Depreciation	-481	-460	-941
Accumulated depreciation and amortisation at 31 Dec. 2018	-3,457	-1,662	-5,119
Carrying amount at 1 Jan. 2018	1,306	826	2,132
Carrying amount at 31 Dec. 2018	825	1,417	2,242

43 DDC	DEDTY	DIANT AND	COLUDBACKIT
IZ. PKU	JPEKIY.	PLANT AND	EQUIPMENT

Carrying amount at 31 Dec. 2018

12. PROPERTY, PLANT AND EQUIPMENT		Machinery and		
Property, plant and equipment 2019	Right-of-use asset	Properties in own use	equipment 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
Property, plant and equipment 2018		Properties in own use	Machinery and equipment and other tangible assets	Total
Acquisition cost at 1 Jan. 2018		5,993	8,305	14,298
Increases		8,064	6,787	14,851
Acquisition cost at 31 Dec. 2018		14,057	15,091	29,148
Accumulated depreciation and amortisation at 1 Jan. 2018		-727	-2,950	-3,677
Amortisation			-272	-272
Depreciation		-421	-1,838	-2,260
Accumulated depreciation and amortisation at 31 Dec. 2018		-1,149	-5,060	-6,209
Carrying amount at 1 Jan. 2018		5,266	5,355	10,621

12,908

10,032

Lehto Group Plc | Financial Statements 2019

22,940



#### **13. INVESTMENT PROPERTIES**

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	535	737
Carrying amount at 31 Dec. 2019	202	527	730

Investment properties 2018	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2018	202	809	1,011
Acquisition cost at 31 Dec. 2018	202	809	1,011
Accumulated depreciation and amortisation at 1 Jan. 2018		-255	-255
Depreciation		-20	-20
Accumulated depreciation and amortisation at 31 Dec. 2018		-274	-274
Carrying amount at 1 Jan. 2018	202	554	757
Carrying amount at 31 Dec. 2018	202	535	737
Net rental income		2019	2018
Rental income from investment prop	erties	43	85
Direct maintenance costs for investm	ent properties	29	30
		14	55

#### 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 2019	Fair value 2018
Business property	Acquisition cost	3	606	612
Land area	Acquisition cost	3	202	202
			808	814

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

	2019	2018
Investments in associated companies at 1 Jan.	859	820
Decreases	-859	-5
Share of profit or loss for the financial year		44
Investments in associated companies at 31 Dec.		859

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



#### **15. OTHER FINANCIAL ASSETS**

Financial assets recognised through profit and loss	2019	2018
Financial assets recognised through profit and loss at 1 Jan.	214	199
Increases	757	14
Decreases	-195	
Financial assets recognised through profit and loss 31 Dec.	775	214

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**

	2019	2018
Other receivables	1,915	24
Total	1,915	24

#### 17. DEFERRED TAX ASSETS AND LIABILITIES

		Recognised in income	
Deferred tax assets 2019	1 Jan 2019	statement	31 Dec 2019
Fixed assets internal margin	47	16	64
Confirmed losses	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

D. ( )	4.1 2040	Recognised in income	24.5. 2040
Deferred tax assets 2018	1 Jan 2018	statement	31 Dec 2018
Fixed assets internal margin	28	20	47
Tax losses carried forward	337	-253	84
Temporary differences from stage- of- completion revenue recognition and depreciation and amortisation	4,534	1,430	5,965
Other temporary differences		2	2
Exchange rate difference in opening balance	-1		-5
Total	4,898	1,199	6,093

Deferred tax liabilities 2018	1 Jan 2018	in income statement	31 Dec 2018
Temporary differences from capitalisation of financial expenses	17	68	85
Depreciation difference with taxation	158	236	394
Other temporary differences	252	-16	236
Total	427	287	715



#### **18. INVENTORIES**

	2019	2018
Materials and supplies	3,986	5,536
Work in progress	161,441	213,302
Right-of-use asset	39,803	
Completed products	44,340	18,033
Inventory shares	123	579
Other inventories	749	764
Total	250,441	238,213

#### 19. TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	50,484	62,186
Loan receivables	1,430	903
Current tax assets	0	2,383
Other receivables	3,862	1,288
Receivables from customers for constructing contracts	29,608	71,145
Adjusting entries for assets	923	1,062
Total	86,307	138,967

2010

2010

Ageing analysis of trade receivables	2019	2018
Not yet due	36,269	54,245
Reduction from expected credit loss	-62	-12
Due for		
less than 30 days	10,840	5,719
30–60 days	634	406
61–90 days	1,265	232
more than 90 days	1,538	1,595
Total	50,484	62,186

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

	2019	2018
Financial assets at fair value through profit or loss	313	311
Total	313	311

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

	2019	2018
Cash in hand and at banks	58,911	53,070
Total	58,911	53,070

Invested non-

#### 22. EQUITY

			mvestea non-	
	Number of shares	Share capital	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



#### **SHARES AND SHARE CAPITAL**

#### Annual General Meeting on 29 March 2019

The Annual General Meeting on March 29, 2019 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, so that the maximum quantity purchased be 5,800,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki in accordance with its rules or using another method. The consideration paid for the purchased shares shall be based on the market price. The authorisation entitles the Board of Directors to decide on the purchase of shares also otherwise than in proportion to the shares owned by the shareholders (directed purchase). Then, there shall be weighty financial reasons for the company to purchase its own shares. Shares may be purchased to implement arrangements linked to the company's business operations, to implement the company's share-based incentive programmes or otherwise to be transferred on or the shares may be cancelled. The purchased shares may also be held by the company. The Board of Directors is authorised to make decisions on all other terms and matters pertaining to the purchase of own shares. The purchase of own shares reduces the unrestricted equity of the company. The term of the authorisation extends until the Annual General Meeting 2020.

The Annual General Meeting authorised 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 without consideration. Contrary to the shareholders' preemptive rights, new shares may be issued directly and

own shares held by the company transferred directly 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 considering the benefit of all its shareholders. The Board of Directors is authorised to decide on all other terms and matters pertaining to a share issue, to the granting of special rights entitling to shares, and to the disposal of shares. Among other things, the authorisation may be used to develop the capital structure, to expand the ownership base, as consideration in M&A transactions, when acquiring assets linked to the operations of the company, and to implement incentive programmes. The term of the authorisation extends until 31 October 2021. The authorisation shall replace the company's previous share issue and option right authorisations.

At balance sheet date, the number of shares totalled 58,309,443. 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 sharebased 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 2017-2019 correspond to the value of an approximate maximum total of 1,200,000 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 2019 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2016 of the long-term incentive plan adopted by Lehto in 2016. In the share issue 58,691 Lehto Group Plc's new shares were issued free of consideration to 25 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. The Issue Shares were registered with the trade register on March 19, 2019 and were entered into the key employees' book-entry accounts, and were admitted to trading on the official list of Nasdaq Helsinki Ltd on March 21, 2019. For the earning period 2017, the performance bonus for members of the share plan was EUR 880,000, which was converted into 75,203 shares. For the earning period 2018 the performance bonus for members of the share plan was EUR 326,000, converted to shares 74,149.

Earning	

Arrangement	2017	2018	2019
Nature of arrangement	Shares	Shares	Shares
Date of issue	11 April 2017	14 Feb 2018	12 Feb 2019
Number of instruments issued	53,439	74,149	21,991 (estimate)
Share price on grant date	12.46	12.40	4.32
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 2017, 2018 and 2019 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2019 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 2019.

#### 23. PROVISIONS

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

Provisions 2018	Guarantee provisions	Onerous projects	Total
Provisions at 1 Jan. 2018	4,098		4,098
Increases	6,678	2,616	9,294
Decreases	-3,017		-3,017
Provisions at 31 Dec. 2018	7,759	2,616	10,375

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**

	2019	2018
Non-current loans from financial institutions	5,556	19,425
Non-current instalment debts	373	676
Non-current lease liabilities	44,658	
Total	50,586	20,101
	2019	2018
Current loans from financial institutions	103,289	46,585
Current instalment debts	303	298
Debts on shares in unsold housing and real estate company shares in progress	17,085	44,885
Debts on shares in unsold housing and real estate company shares completed	15,754	4,033
Current lease liabilities	2,147	
Total	138,579	95,802
Financial liabilities, total	189,165	115,903

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

	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

	1 Jan 2018	Cash flows	31 Dec 2018
Non-current financial liabilities	11,109	8,992	20,101
Current financial liabilities	25,840	69,963	95,802
Total	36,948	78,955	115,903

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

Non-current non-interest-bearing liabilities	2019	2018
Estimated purchase prices from inventory shares	122	5,591
Total	122	5,591
Current non-interest-bearing liabilities	2019	2018
Advances received		
From projects where revenue recognised over time	14,930	20,179
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estates shares in progress	28,855	34,644
Debts on shares in sold housing and real estates shares in progress	28,801	33,411
Other advances received	635	18
Trade payables	29,755	40,343
Other liabilities		
Liabilities paid to the Tax Administration	14,481	21,328
Other liabilities	4,002	3,534
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	11,763	13,228
Income tax debt	83	1,738
Other adjusting entries for liabilities	7,109	4,926
Total	140,413	173,351



#### **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 available. At the end of 2019, the cash and cash equivalents amounted to EUR 58.9 million (EUR 53.4 million 31 December 2018). The amount of credit limits available at the end of 2019 was EUR 75.0 million, out of which EUR 54.0 million was in use. In November 2018, Lehto signed a EUR 50 million financing agreement with OP Corporate Bank plc and Nordea Bank plc. This financing agreement is a Revolving Credit Facility (RCF) that is valid for three years. The agreement employs the standard covenants for profitability and indebtedness. In March 2019, Swedbank AB was added to this credit facility with a EUR 25 million share, increasing the total sum to EUR 75 million. The covenant levels of the RCF financing agreement were renegotiated with financiers during the review period. As a result of the negotiations, the full amount of the RCF is limited to EUR 54 million and this full amount was in use on the closing date

The Group has taken out so-called RS loans for it 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 0,7 million (EUR 0,0 million in 31 December 2018) and receivables denominated in foreign currency totalling EUR 1.2 million at 31 December 2019 (EUR 1.1 million in 2018). 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 convert the loans into fixed-rate loans of 2–10 years 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 duration as necessary.

#### Sensitivity analysis for loans with

floating rates	2019		20	18
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	-47	47	-161	161

#### 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 bygranting 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 available. The amount of un-used credit limits at 31 December 2019 was EUR 21.0 million (EUR 58.8 million in 2018).



#### Analysis of debt maturity

2019	31 Dec 2019	less than 1 year	1–5 years	more than 5 years
Financial liabilities	142,360	136,431	5,928	
Lease liabilities	46,805	2,147	5,015	39,643
Trade payables and other non- interest-bearing liabilities	48,360	48,238	122	

2018	31 Dec 2018	less than 1 year	1–5 years	more than 5 years
Financial liabilities	115,903	95,802	20,101	
Trade payables and other non- interest-bearing liabilities	70,797	65,206		

#### **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	2019	2018
Interest-bearing liabilities	189,165	115,903
Cash and cash equivalents and interest-bearing receivables	-59,224	-53,381
	129,941	62,522
Equity, total	112,126	162,357
Gearing	49.9%	21.3%
Net gearing ratio	115.9%	38.5%

#### **27. JOINT ARRANGEMENTS**

The Group have 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 had no actual activities 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:

	2019	2018
Current assets	4	20
Current liabilities	23	0
Revenue	7	
Expenses		1

#### 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.

Reconciliation of rent liabilities on Dec 31, 2018 and lease liabilities in balance sheet on Jan 1, 2019

Property

		property, plant and	
	Inventories	equipment	Total
Rent liabilities Dec 31, 2018 (including VAT)	156,372	8,486	164,858
Effect of VAT		-1,234	-1,234
Effect of the short-term and low value contracts		-439	-439
Effect of the rental period		1,504	1,504
Effect of the discounting	-54,710	-359	-55,069
Lease liabilities Jan 1, 2019	101,662	7,957	109,619



At the date of transition, the average incremental borrowing rate of lessees was 2.0%.

EUR 279 thousand was recognised as expenses from low-value leases during the financial year. The total cash flow from right-of-use leases amounted to EUR 2,848 thousand and from land leases to EUR 3,624 thousand.

#### **29. LIABILITIES AND GUARANTEES**

Loans covered by pledges on assets	2019	2018
Loans from financial institutions	54,706	65,837
Debts on shares in unsold housing company shares	32,840	48,918
Instalment debts	554	845
Total	88,100	115,601

Guarantees	2019	2018
Corporate mortgages		1,800
Real-estate mortgages	9,380	4,930
Pledges	60,470	65,359
Absolute guarantees	327	347
Total	70,178	72,436

Contract guarantees	2019	2018
Production guarantees	41,190	49,904
Warranty guarantees	17,649	14,259
RS guarantees	34,999	36,838
Payment guarantees	4,085	10,479
Total	97,923	111,479

Liability to adjust value added tax (VAT) on property		
investments	2019	2018
Liability to adjust VAT	2,616	3,164

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%
Lehto Remontit Oy	Finland	100%	100%
Lehto Components Oy	Finland	100%	100%
Insinööritoimisto Mäkeläinen 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%

C------



## 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 2019	Sales 2018	Purchases 2019	Purchases 2018
Key personnel and their controlled entities	30,884	56,295	4,595	5,208
Total	30,884	56,295	4,595	5,208

	Receivables 31 Dec 2019	Receivables 31 Dec 2018	Liabilities 31 Dec 2019	Liabilities 31 Dec 2018
Key personnel and their controlled entities	4,475	7,773	19	104
Total	4,475	7,773	19	104

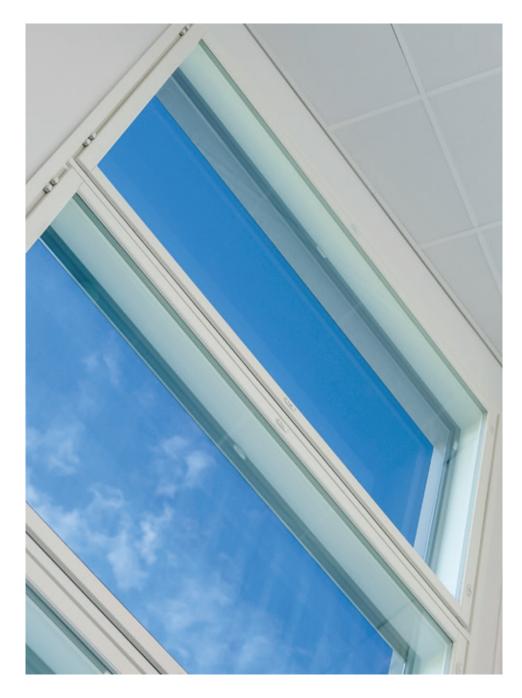
A major part of related party transactions are connected with purchase of apartments and other premises from the company. The transactions are valued at the debt-free selling price of the completed site. Purchases are mainly equipment rents and other service purchases.

#### Management salaries and remuneration

	2019	2018
Chief Executive Officer, CEO		
Hannu Lehto	126	126
Other management	1,336	1,091
Total	1,463	1,218

Members of the Board of Directors	2019	2018
Martti Karppinen, chairman	96	58
Pertti Korhonen	50	26
Mikko Räsänen	49	33
Anne Korkiakoski (since March 29, 2019)	40	
Seppo Laine (since March 29, 2019)	41	
Sakari Ahdekivi (until March 29, 2019)	9	35
Päivi Timonen (until March 29, 2019)	9	35
Pertti Huuskonen (until April 11, 2018)		13
   Total	293	200





## Income Statement for the parent company, FAS

	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Net sales	10,541	8,975
Other operating income	919	514
Personnel expenses		
Salaries and fees	-4,075	-3,206
Personnel expenses		
Pension costs	-716	-596
Indirect employee costs	-109	-129
Depreciation according to plan and impairment	-790	-517
Other operating expenses	-4,522	-4,834
Operating profit/loss	1,248	206
Financial income and expenses		
Income from holdings in Group companies	25	15,520
Interest and other financial income		
From Group companies	2,369	1,117
From others	22	113
Amortisation from other investments held as non-current assets		0
Interest and other financial expenses		
To Group companies	-10	-13
To others	-2,083	-431
Financial income and expenses, total	322	16,305
Profit/loss before appropriations and taxes	1,570	16,511
Appropriations		
Group contribution	-1,669	-800
Profit/loss before taxes	-99	15,711
Taxes	0	-36
Profit/loss for the financial year	-99	15,675



## **Balance Sheet for the parent company, FAS**

ASSETS	31 Dec 2019	31 Dec 2018
Non-current assets		
Intangible assets	2,281	1,130
Machinery and equipment	402	660
Holdings in Group companies	80,840	27,326
Investments in associated companies		780
Other shares and investments	757	
Non-current assets, total	84,279	29,897
Current assets		
Inventories	83	83
Non-current receivables		
Receivables from Group companies	1,229	1,350
Receivables from associated companies		
Other receivables		
Current receivables		
Trade receivables		40
Receivables from Group companies	51,749	65,863
Other receivables	14	111
Adjusting entries for assets	259	25
Financial securities	313	311
Cash and cash equivalents	56,429	40,792
Current assets total	110,075	108,576
ASSETS TOTAL	194,354	138,473

EQUITY AND LIABILITIES	31 Dec 2019	31 Dec 2018
Equity		
Share capital	100	100
Invested non-restricted equity reserve	71,335	71,335
Retained earnings	-2,516	-4,196
Profit / loss for the financial year	-99	15,675
Equity, total	68,820	82,914
Liabilities		
Non-current liabilities		
Loans from financial institutions		50
Other liabilities		50
Non-current liabilities, total		100
Current liabilities		
Loans from financial institutions	54,050	20,200
Trade payables	533	335
Liabilities to Group companies	69,582	33,910
Other liabilities	290	272
Adjusting entries for liabilities	1,080	743
Current liabilities, total	125,535	55,460
Liabilities, total	125,535	55,559
EQUITY AND LIABILITIES TOTAL	194,354	138,473



87

## Cash Flow Statement for the parent company, FAS

	31 Dec 2019	31 Dec 2018
Cash flow from operating activities		
Profit for the financial year	1,570	16,511
Adjustments:		
Depreciation according to plan and impairment	790	517
Gain on sale of non-current assets	-878	-431
Financial income and expenses	-322	-16,306
Changes in working capital:		
Change in trade and other receivables	-67	170
Change in trade and other payables	-720	853
Interest paid and other financial expenses	-1,817	-460
Interests received from operations	2,279	1,181
Dividends received from operations		15,520
Income taxes paid	-36	-2
Net cash from operating activities	798	17,552
Cash flow from investments		
Investments in intangible and tangible assets	-1,682	-1,655
Investments in other investments	-1,037	-45
Proceeds from sale of investments		166
Repayment of loan receivables	600	1,175
Loans granted	-10,970	-1,441
Sales of associated companies	1,658	267
Net cash from investments	-11,432	-1 533

	31 Dec 2019	31 Dec 2018
Cash flow from financing		
Loans drawn	60,000	30,000
Loans repaid	-26,200	-10,200
Change in Group financing	7,267	-40,611
Group contribution	-800	3,150
Dividends paid	-13,995	-19,797
Share issue paid		
Net cash used in financing activities	26,272	-37,458
Change in cash and cash equivalents (+/-)	15,638	-21,439
Cash and cash equivalents at 1 Jan.	41,104	62,542
Cash and cash equivalents at 31 Dec.	56,742	41,104



## 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	2019	2018
Group internal service charges	10,319	8,850
Other net sales, internal	218	125
Other net sales, external	4	0
Total	10,541	8,975

Auditors' fees	2019	2018
Statutory auditing	61	124
Tax services	0	2
Other services	9	0
Total	71	127

Financial income and expenses	2019	2018
Dividend income from Group companies	25	15,520
Interest income from Group companies	2,369	1,117
Interest income from others	22	113
Amortisation from other investments held as non-current assets	0	0
Interest costs on intra-Group liabilities	-10	-13
Interest costs to others	-1,319	-136
Other financial expenses	-764	-295
Total	322	16,305

Taxes	2019	2018
Current taxes	0	-36
Total	0	-36

#### Notes on balance sheet assets

Intangible rights	2019	2018
Acquisition cost at 1 Jan.	698	574
Increases	558	124
Acquisition cost at 31 Dec.	1,256	698
Accumulated depreciation at 1 Jan.	-471	-341
Depreciation and amortisation	-260	-130
Accumulated depreciation at 31 Dec.	-731	-471
Book value at 1 Jan.	228	233
Book value at 31 Dec.	526	228



Other long-term expenditure	2019	2018
Acquisition cost at 1 Jan.	1,425	575
Increases	297	850
Acquisition cost at 31 Dec.	1,722	1,425
Accumulated depreciation at 1 Jan.	-523	-359
Depreciation and amortisation	-216	-164
Accumulated depreciation at 31 Dec.	-738	-523
Book value at 1 Jan.	903	216
Book value at 31 Dec.	984	903
Advanced payments for intangible assets	2019	2018
Acquisition cost at 1 Jan.	0	
Increases	771	
Acquisition cost at 31 Dec.	771	
Book value at 1 Jan.	0	
Book value at 31 Dec.	771	
Machinery and equipment	2019	2018
Acquisition cost at 1 Jan.	1,200	520
Increases	55	681
Acquisition cost at 31 Dec.	1,256	1,200
Accumulated depreciation at 1 Jan.	-541	-317
Depreciation and amortisation	-314	-224
Accumulated depreciation at 31 Dec.	-855	-541
Book value at 1 Jan.	659	202
Book value at 31 Dec.	400	659

Other tangible assets	2019	2018
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	2019	2018
Acquisition cost at 1 Jan.	28,201	30,142
Increases	54,270	
Decreases	-780	-1,940
Acquisition cost at 31 Dec.	81,692	28,201
Accumulated amortisation at 1 Jan.	-95	-95
Amortisation	0	0
Accumulated amortisation at 31 Dec.	-95	-95
Book value at 1 Jan.	28,106	30,047
Book value at 31 Dec.	81,596	28,106
Non-current receivables from Group companies	2019	2018
Loan receivables	1,229	1,350
Total	1,229	1,350



Current receivables from Group companies	2019	2018
Trade receivables	65	304
Loan receivables	724	2,169
Other receivables	722	475
Group limit	50,238	62,915
Total	51,749	65,863

Essential items included in adjusting entries for assets	2019	2018
Other adjusting entries for assets	259	25
Yhteensä	259	25

#### Notes on balance sheet liabilities

	2019	2018
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
Invested non-restricted equity reserve at 31 Dec.	71,335	71,335
Retained earnings at 1 Jan.	-4,196	3,405
Retained earnings	15,675	12,197
Distribution of dividends	-13,995	-19,797
Retained earnings at 31 Dec.	-2,516	-4,196
Profit/loss for the financial year	-99	15,675
Equity, total	68,820	82,914

Statement of distributable funds	2019	2018
Invested non-restricted equity reserve	71,335	71,335
Retained earnings	-2,516	-4,196
Profit/loss for the financial year	-99	15,675
Total	68,720	82,814
Liabilities to Group companies	2019	2018
Trade payables	87	1,070
Other payables	42,865	800
Group limit	26,630	32,040
Total	69,582	33,910
Essential items included in adjusting entries for liabilities	2019	2018
Holiday pay debt with related costs	500	423
Non-wage labour cost debt	227	208
Tax debt	221	36
Interest debt	352	75
Other liabilities	332	0
Total	1,080	743
GUARANTEES AND CONTINGENT LIABILITIES		
Loans covered by pledges on assets	2019	2018
Loans from financial institutions	50	20,250
Total	50	20,250
Guarantees		
Absolute guarantees	238	238
Total	238	238



Amount of credit limits	2019	2018
Credit limits available	75,005	58,754
Credit limits in use	54,005	4
Credit limits outstanding	21,000	58,750
Guarantee limits available	196,175	215,020
Guarantee limits in use	98,272	111,732
Guarantee limits outstanding	97,903	103,288

Guarantees given on behalf of other Group		
companies	2019	2018
Guarantees given and other commitments	81,177	159,771
Leasing agreements not included in balance sheet		
Expiring in 12 months	56	55
Expiring in more than 12 months	90	87
Total	146	142
Lease liabilities		
Construction leases	4,446	5,538
Total	4,446	5,538

#### Notes on personnel and members of administrative personnel

Average number of company personnel at the end of the financial year	2019	2018
Salaried employees	82	66
Total	82	66

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 2019 are EUR 68,719,704.44, of which the operating result is EUR -99,211.31.

The Board of Directors will propose to the Annual General Meeting to be held on 14 April 2020 that no dividends be paid for the 1 January–31 December 2019 financial year.

# **Signatures to the Annual Report and Financial Statements**

Vantaa, 19 February 2020

Martti Karppinen	Pertti Korhonen	Seppo Laine
Chairman of the Board of	Member of the Board	Member of the Board
Directors	of Directors	of Directors
Mikko Räsänen	Anne Korkiakoski	Hannu Lehto
<b>Mikko Räsänen</b> Member of the Board	<b>Anne Korkiakoski</b> Member of the Board	Hannu Lehto CEO

#### The Auditor's Note

A report on the audit performed has been issued today.

Oulu, 19 February 2020

KPMG Oy Ab

Audit firm

**Tapio Raappana** 

APA



## **Group Key Figures**

croop may rigores	2019	2018	2017 <sup>3)</sup>	2016	2015 1)
Net sales, EUR million	667.7	721.5	597.6	361.8	275.6
Net sales, change from the previous year %	-7.5%	20.7%	65.2%	31.3%	61.1%
Operating result, EUR million	41.8	37.2	64.6	40.4	27.2
Operating result, as % of net sales	-6.3%	5.2%	10.8%	11.2%	9.9%
Profit or loss for the financial year, EUR million	35.7	28.7	51.6	31.9	21.2
Profit or loss for the financial year, as % of net sales	-5.4 %	4.0%	8.6%	8.8%	7.7%
Return on investments (ROE), %	-26.0%	18.3%	38.8%	42.8%	85.1%
Return on equity (ROI), %	-14.3%	16.1%	40.6%	44.5%	66.5%
Equity ratio, %	29.6%	42.7%	56.2%	60.4%	37.2%
Gearing, %	49.9%	21.3%	11.7%	9.4%	32.6%
Net gearing ratio, %	115.9%	38.5%	-20.6%	-44.2%	-22.9%
Gross expenditure on assets, EUR million	7.7	15.9	4.5	7.6	1.1
Personnel during the period, average	1,454	1,457	1,013	566	402
Personnel at Dec 31	1,274	1,552	1,184	747	423
Equity / share	1.92	2.78	2.58	1.98	0.74
Earnings per share, EUR, basic	-0.61	0.49	0.89	0.59	0.52
Earnings per share, EUR, diluted	-0.61	0.49	0.88	0.59	0.52
Average number of shares during the year, basic	58,296,740	58,250,752	58,250,752	54,067,297	41,062,559
Average number of shares during the year, diluted	58,424,817	58,380,598	58,432,315	54,073,804	41,062,559
Number of shares at the end of the year	58,309,443	58,250,752	58,250,752	58,250,752	45,310,404
Market value of share at Dec 31, EUR million	137.0	247.6	737.5	593.6	-
Share turnover, shares	45,281,956	42,861,908	16,334,696	11,912,330	-
Share turnover out of average number of shares, %	77.7%	73.6%	28.0%	22.0%	-
Share prices, EUR					
Highest price, EUR	5.33	14.18	14.26	10.19	-
Lowest price, EUR	1.48	4.02	9.79	5.52	-
Average price, EUR	2.66	9.13	12.25	8.03	-
Price at Dec 31, EUR	2.35	4.25	12.66	10.19	-
Dividend / share, EUR <sup>2)</sup>	-	0.24	0.34	0.22	0.18
Dividend payout ratio, % 2)	-	48.7%	38.4%	37.3%	33.8%
Effective dividend yield % 2)	-	5.6%	2.7%	2.2%	-
Price / Earnings	-3.84	8.64	14.33	17.27	-

<sup>&</sup>lt;sup>1)</sup> Year 2015 adjusted for share issue (split) in March 30, 2016 <sup>2)</sup> Year 2019 dividend proposal <sup>3)</sup> Restated according IFRS 15

Lehto Group Plc | Group key figures 2019



#### **Definitions of key figures**

	Profit for the financial year		
Earnings per share	Issue-adjusted average number of shares during the year		
	Equity		
Equity / share	Issue-adjusted average number of shares at the end of year		
	Dividend		
Dividend / share	Issue-adjusted number of 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.

Return on equity (ROE), %		Profit for the financial year
		Equity (average)
Return on investments (ROI), %	100 x	Profit before taxes + Interest and other financial expenses
neturi on investments (noi), /	100 X	Balance sheet total - Non-interest bearing liabilities (average)
Equity ratio, %	100 x	Equity Balance sheet total - Advances received

Gearing, %	100 x	Non-current liabilities  Equity + Provisions
Net gearing ratio, %	100 x	Interest-bearing liabilities - Cash and cash equivalents and financial securities  Equity
Dividend payout ratio, %	100 x	Dividend per share  Earnings per share
Effective dividend yield, %	100 x	Dividend per share Share price on Dec 31
Price / Earnings (P/E)		Issue-adjusted share price on Dec 31 Earnings per share

Lehto Group Plc | Group key figures 2019



#### **Shares and Shareholders**

At balance sheet date, the number of shares is 58,309,443. 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 2019**

	Number of shares	%
Lehto Invest Oy	21,748,221	37.3 %
Kinnunen Mikko	1,446,454	2.5 %
Danske Invest Finnish Equity Fund	915,718	1.6 %
Saartoala Ari	865,329	1.5 %
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	800,000	1.4 %
Sr eQ Pohjoismaat Pienyhtiö	761,336	1.3 %
Heikkilä Jaakko	640,000	1.1 %
OP-Henkivakuutus Oy	476,231	0.8 %
Keskinäinen Työeläkevakuutusyhtiö Elo	474,206	0.8 %
Paloranta Veli-Pekka	324,851	0.6 %
10 LARGEST SHAREHOLDERS	28,452,346	48.8 %
Nominee-registered	6,515,921	11.2 %
Other shareholders	23,341,176	40.0 %
TOTAL	58,309,443	100.0 %

#### SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share- holders	%
1 – 100 shares	284,132	0.5 %	5,328	28.6 %
101 – 1,000 shares	4,133,862	7.1 %	9,856	53.0 %
1,001 – 10,000 shares	9,081,839	15.6 %	3,112	16.7 %
10,001 – 100,000 shares	7,058,243	12.1 %	275	1.5 %
100,001 – 1,000,000 shares	8,817,295	15.1 %	27	0.2 %
over 1,000,000 shares	28,934,072	49.6 %	3	0.0 %
TOTAL	58,309,443	100.0 %	18,601	100.0 %
where of Nominee-registered	6,515,921	11.2 %	10	5.0 %

#### SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share- holders	%
Companies	26,856,144	46.1 %	785	4.2 %
Financial and insurance institutions	8,306,118	14.2 %	27	0.2 %
Public sector organizations	1,492,013	2.6 %	4	0.0 %
Households	21,303,825	36.5 %	17,700	95.2 %
Non-profit organizations	186,485	0.3 %	42	0.2 %
Foreign countries	164,858	0.3 %	33	0.2 %
TOTAL	58,309,443	100.0 %	18,591	100.0 %
where of Nominee-registered	6,515,921	11.2 %	10	0.1 %

Lehto Group Plc | Shares and shareholders 2019



LEHTO GROUP PLC

# **Auditor's Report**



## **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 2019. 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.

Lehto Group Plc | Auditor's Report 2019



## Net sales: revenue recognition

(Refer to Accounting principles for the consolidated financial statements, section "Revenue recognition principles" and notes 2, 18 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 55% 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

Lehto Group Plc | Auditor's Report 2019



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 7 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.

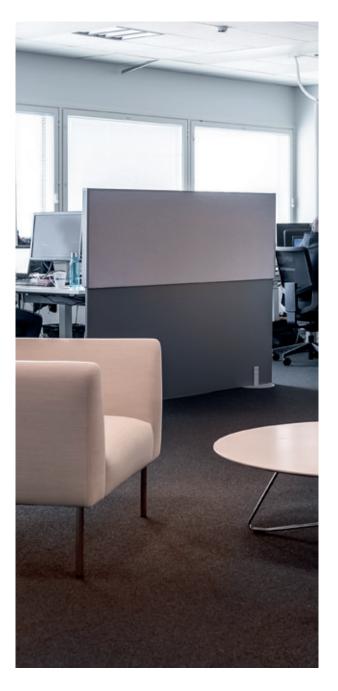
If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Oulu, 19 February 2020

KPMG Oy Ab

#### Tapio Raappana

Authorised Public Accountant, KHT



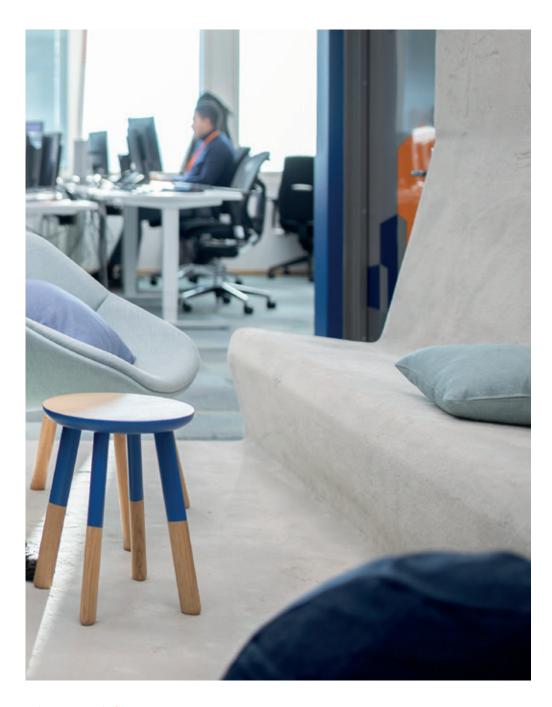
Lehto Group Plc | Auditor's Report 2019



LEHTO GROUP PLC

**Corporate Governance Statement** 





## **Corporate Governance Statement 2019**

Introduction	102
Descriptions concerning corporate governance	102
General Meeting of Shareholders	102
Board of Directors	102
Board committees	106
Group Management	107
Main features of the internal control and risk management systems related to the financial reporting process	111
Risk management	111
Internal control	111
Internal controls over financial reporting	112
Risk management and internal control roles and responsibilities	113
Other information to be provided	114
Insider Administration	114
Related party administration	115
Internal auditing	115
Auditing	115



#### 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 2020, 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. 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, and 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 29 March 2019 consisted of Martti Karppinen, Mikko Räsänen, Pertti Korhonen, Anne Korkiakoski and Seppo Laine. Martti Karppinen has acted as Chairman of the Board of Directors. During the financial year 2019, the Board of Directors had a total of 14 meetings, five of which was conducted by phone or email. The average attendance rate of Board members was 97 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
Martti Karppinen	Chairman of the Board of Directors	1947	M.Sc. (Tech.)	Yes	Yes
Pertti Korhonen	Member of the Board of Directors	1961	M.Sc. (Tech.)	Yes	Yes
Mikko Räsänen	Member of the Board of Directors	1978	M.Sc. (Econ.)	Yes	Yes
Anne Korkiakoski ²	Member of the Board of Directors	1964	M.Sc. (Econ.)	Yes	Yes
Seppo Laine <sup>2</sup>	Member of the Board of Directors	1953	APA	Yes	Yes
Sakari Ahdekivi <sup>1</sup>	Member of the Board of Directors	1963	M.Sc. (Econ.)	Yes	Yes
Päivi Timonen <sup>1</sup>	Member of the Board of Directors	1970	LL.M. Trained on the Bench	Yes	Yes

<sup>&</sup>lt;sup>1</sup> Has been a member of the Board of Directors until 29 March 2019.

<sup>&</sup>lt;sup>2</sup> Has been a member of the Board of Directors since 29 March 2019.



#### **BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES 31 DECEMBER 2019**

Name	No. of shares held	Shareholding ratio
Martti Karppinen	14,568	0.02%
Pertti Korhonen	11,284	0.02%
Mikko Räsänen	6,284	0.01%
Anne Korkiakoski	21,284	0.04%
Seppo Laine	27,284	0.05%
Board of Directors in total	80,704	0.14%

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

Name	Remuneration for 2019, paid as shares, EUR	Remuneration for 2019, paid as cash, EUR	Sale of services to the Company in 2019, EUR	Attendance in Board meetings
Martti Karppinen	27,600	68,700	-	14/14
Pertti Korhonen	13,800	35,950	-	14/14
Mikko Räsänen	13,800	34,800	-	13/14
Anne Korkiakoski <sup>2</sup>	13,800	25,950	-	10/10
Seppo Laine <sup>2</sup>	13,800	27,000	-	9/10
Sakari Ahdekivi <sup>1</sup>	-	9,000	-	4/4
Päivi Timonen <sup>1</sup>	-	8,800	-	4/4
Board of Directors in total	82,800	210,200	-	97%

<sup>&</sup>lt;sup>1</sup> Has been a member of the Board of Directors until 29 March 2019.

<sup>&</sup>lt;sup>2</sup> Has been a member of the Board of Directors since 29 March 2019.



#### **Presentation of Board members**

*Martti Karppinen* has been the Chairman of the Board of Directors since 2018 and a member of the Board of Directors since 2014. Prior to that, he served as an advisor to the Board of Directors in 2012–2014. His previous positions include a member of the Board of Directors and Chairman of the Board of Directors of iLOQ Oyj. Since 2007, Karppinen has been CEO and Chairman of the Board of Directors of MKA Consulting Oy. Karppinen holds the degree of Master of Science in Technology.

Pertti Korhonen has been a member of the Board of Directors since 2018. Korhonen started his long career with Nokia in 1986, first in product development duties as the head of its Oulu unit and later as Chief Technology Officer and a member of the Group Executive Board. In 2006-2009, Korhonen served as the CEO of Elektrobit Corporation, and in 2010-2016 as the CEO of Outotec Corporation. Korhonen also holds numerous positions of trust. For instance, he serves as the Chairman of the Board of Directors of DNA Plc, Chairman of the Board of Directors of Traffic Management Finland Group, a member of the Board of Directors of Granlund Oy and the Chairman of the Board of Business Finland.

**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, Irepse, and Kalevala Jewelry. 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.).

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 Ltdas well as a Member of the Board in Apetit Plc. 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.



From left: Seppo Laine, Pertti Korhonen, Anne Korkiakoski, Mikko Räsänen and Martti Karppinen



## The memberships of the Board of Directors that ended during 2019

**Päivi Timonen** was member of the Board of Directors since 2014 until the Annual General Meeting of the year 2019.

**Sakari Ahdekivi** was member of the Board of Directors since 2016 until the Annual General Meeting of the year 2019.

## Statement on the implementation of the Board Diversity Policy 2019

In 2019, 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 2019 Annual General Meeting, the shareholders' Nomination Committee proposed that Martti Karppinen, Mikko Räsänen and Pertti Korhonen be re-elected as members of the Board of Directors. Furthermore, the shareholders' Nomination Committee proposed that Anne Korkiakoski and Seppo Laine be elected to the Board to replace Sakari Ahdekivi and Päivi Timonen. The proposed persons were elected to the Board. At its organisation meeting, Martti Karppinen was elected as Chairman of the Board.

The defined diversity goal is well implemented in the Company Board of Directors. The Board of Directors includes members that have knowledge in commerce, law, and technology. The Board is composed of 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 international duties, and they have the capacity to develop the Company and assess the view 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 may be made more efficient by the establishment of 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 on 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 29 March 2019, the Board of Directors elected Seppo Laine (Chairman), Pertti Korhonen, 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 2019, 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 hear outside experts.

According to the last October 2018 date of public trading, organised by Nasdaq OMX Helsinki, Lehto Group Plc's three biggest shareholders were Lehto Invest Oy, OP-Rahastoyhtiö Oy, and Mikko Kinnunen. They exercised their nomination right, nominating





Hannu Lehto, Vesa Vanha-Honko and Mikko Kinnunen, all accepting the nomination, as members of the Nomination Committee. The Shareholders' Nomination Committee held three meetings.

**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's predecessor, the Päätoimija Group. 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 2019 Hannu Lehto owns directly or indirectly 21,748,221 shares of the Company which are 37.30 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 2019 comprises in addition to CEO:

- Veli-Pekka Paloranta, CFO, Chief Financial Officer
- Juha Höyhtyä, EVP, Housing (since 1 June 2019)
- Jaakko Heikkilä, EVP, Business Premises
- Ville Kettunen, EVP, Social Care and Educational Premises
- Timo Reiniluoto, EVP, Business Support Services
- **Jukka Haapalainen**, EVP, Factory Production (since 1 August 2019)
- Arto Tolonen, CDO, Chief Development Officer
- **Kaarle Törrönen**, Vice President, Human Resources (since 1 April 2019)
- Toni Kankare, Chief Commercial Officer (since 1 August 2019)

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 2010–2015, he was the CFO of Bittium Oyj (former Elektrobit Oyj), in addition to which he has served as Chairman of the Board of several

subsidiaries of the Elektrobit Group. 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.



Ville Kettunen, born 1977, has over 15 years' experience of construction business. He has held various management positions in on-site construction, construction management and property development. Previously Kettunen acted as area manager in Lemminkäinen Talo Oy.



**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.



**Toni Kankare**, born 1979, has served as Chief Commercial Officer since 2019. He has over 15 years of experience in the real estate and construction industry, most recently as SRV Group Plc's Project Development Director. In addition to SRV, he has worked in

key roles for such as Lidl Suomi Ky, EFM Suomi Oy and TKD Suomi Oy.



#### DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM 31 DECEMBER 2019

Name	No. of shares held	Shareholding ratio
Veli-Pekka Paloranta	324,851	0.56%
Juha Höyhtyä (since 1 June 2019)	-	-
Jaakko Heikkilä	640,000	1.10%
Ville Kettunen	70	0.00%
Timo Reiniluoto	14,895	0.03%
Jukka Haapalainen (since 1 August 2019)	-	-
Arto Tolonen	1,782	0.00%
Kaarle Törrönen (since 1 April 2019)	3,000	0.01%
Toni Kankare (since 1 August 2019)	1,000	0.00%
Total	985,598	1.69%



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

**Pasi Kokko**, born 1968, was member of the Group's Executive Team until 1 April 2019. Kokko served as Managing Director of Lehto's subsidiary Rakennuskartio Oy from 2013 to the end of 2017, after which he was EVP, Housing.

**Pekka Korkala**, born 1969, was mamber of the Group's Executive Team until 31 august 2019. Until that he served as CEO of Lehto's subsidiary Lehto Components Oy.

#### **Business operations management**

The Group's operational business was during 2019 divided into three service areas: Business Premises,

Social Care and Educational Premises, Housing, and Building Renovation. In the beginning of 2019 the Building Renovation service area was merged into the Housing and Business Premises service areas and from the beginning of the year 2019 the business of the Company has been organised into Housing, Business Premises, and Social Care and Educational Premises service areas. Service areas are led by separate EVP's 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.

The actual operative business of the company takes place in the subsidiaries of the company. Three 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 EVP's 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 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 V10 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**

It is the task of the General Counsel to ensure and monitor 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.

#### EVP's of service areas

The EVP's 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 EVP's 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.

In accordance with MAR the disclosure of insider information data has been suspended and the Company has not updated a public insider information after the MAR came into force.

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 August 2016, 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, and clear

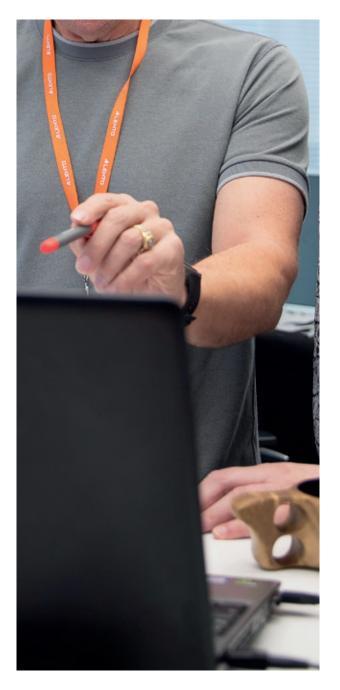
reporting and advance approval procedures are in place for these.

#### **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 2019, KMPG Oy Ab, a firm of authorised public accountants, acted as the Company's auditor, with APA Tapio Raappana as the principal auditor. The fees for audit services totaled approximately EUR 244,000. Furthermore, the Company paid the auditor approximately EUR 164,000 for services not related to auditing.





#### LEHTO GROUP PLC

Voimatie 6 B lehto@lehto.fi









