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Lehto Group Plc Half-Year Financial Report 1 January – 30 June 2020

Restructuring progressing well: significant improvement in operating result; balance sheet and financial position stabilised

This half-year financial report has been prepared in accordance with the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act. The financial information presented in this business review is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.

Summary January–June 2020

GROUP	4–6/2020	4–6/2019	1–6/2020	1–6/2019	1–12/2019
Net sales, EUR million	135.1	128.5	254.5	246.3	667.7
Change in net sales, %	5.1%	-31.9%	3.3%	-15.6%	-7.5%
Operating result, EUR million	-1.6	-18.3	-5.1	-27.5	-41.8
Operating result, % of net sales	-1.2%	-14.2%	-2.0%	-11.2%	-6.3%
Result for the period, EUR million	-2.0	-15.2	-5.8	-22.8	-35.7
Order backlog at period end, EUR million	531.9	752.5	531.9	752.5	481.8
Earnings per share, EUR million	-0.03	-0.26	-0.10	-0.39	-0.61
Cash and cash equivalents, EUR million[1)]	45.0	22.8	45.0	22.8	59.2
Interest-bearing liabilities, EUR million	171.7	259.9	171.7	259.9	189.2
Lease liabilities in interest-bearing liabilities, EUR million	60.0	85.2	60.0	85.2	46.8
Equity ratio, %	30.7%	25.8%	30.7%	25.8%	29.6%
Net gearing ratio, %	119.7%	189.4%	119.7%	189.4%	115.9%
Equity ratio, excl. IFRS 16 lease liabilities, %	37.0%	31.2%	37.0%	31.2%	33.8%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	63.0%	121.4%	63.0%	121.4%	74.1%

[1)] Cash and cash equivalents do not include deposit guarantees (EUR 20.6 million, 30 June 2020) for contractual, warranty and other liabilities. Deposit guarantees are presented in the balance sheet under receivables

- First-half net sales remained at the same level as in the corresponding period of the previous year at EUR 254.5 (246.3) million. Net sales grew in the Housing service area, but fell in the Business Premises service area.
- The operating loss was EUR 5.1 million (operating loss of EUR 27.5 million). The completion of the previous year's loss-making projects had a positive impact on the operating result. The result continued to be burdened by ongoing social care and school projects with low margins, losses in Sweden, and one loss-making complete renovation project.
- The balance sheet position remained stable. Interest-bearing liabilities decreased slightly, and cash and cash equivalents declined to EUR 45.0 million (EUR 59.2 million on 31 December 2019). Cash and cash equivalents were reduced by a total of EUR 20.6 million that has been pledged as collateral against the RCF credit facility and contractual, warranty and other liabilities.
- The order backlog rose to EUR 531.9 million (EUR 481.8 million on 31 December 2019). The order backlog increased in both the Housing and Business Premises service areas.
- The Social Care and Educational Premises service area was integrated operationally into the two other service areas as of 1 May 2020. Care home construction was transferred to Housing and the construction of schools to Business Premises. The figures for the review and comparison periods have been adjusted accordingly.

NET SALES BY SERVICE AREA, EUR MILLION	1–6/2020	1–6/2019	CHANGE	1–12/2019
Business Premises	88.0	96.2	-8.5%	201.8
Housing	166.4	150.1	10.9%	465.9
Total	**254.5**	**246.3**	**3.3%**	**667.7**

CEO Hannu Lehto:

"Our restructuring programme is starting to generate results. Net sales for the first half of the year were at the same level as last year, and our operating result also improved significantly when some major loss-making projects ended at the turn of the year. Our company's restructuring programme has progressed according to plan, and this work has played an important role in creating a foundation for future success after some exceptionally strong years of growth. Our balance sheet and financial position also stabilised during the first half of the year. However, our operating result is still being burdened by weak performance in projects relating to social care and educational premises, as well as the costs associated with bringing the Swedish project to completion.

Sales have been going well, and our order backlog stood about EUR 50 million higher at the end of the review period than at the turn of the year. Our focus in housing construction has now shifted from developer contracting to fixed-price contracts for institutional clients. Demand for business premises is fairly stable and is being supported by municipal investments in schools. Pipeline renovations have also remained stable.

According to public forecasts, the Finnish economy is weakening and construction is set to fall over the coming years. Yet we have already seen that good demand for affordable construction can be maintained even during weaker economic situations. However, difficulty in obtaining financing appears to be significantly hindering the launch of new construction projects.

The coronavirus pandemic has also affected our business. The startup of some construction projects has been postponed and housing sales to consumers have slowed. However, housing sales did start to pick up at the end of the second quarter.

There have been coronavirus infections at two of our construction sites, but we are not aware of any serious cases. Construction sites have been taking the necessary protection and prevention measures, and work is also continuing on the aforementioned two sites. Work is currently progressing in a relatively normal manner, both in offices and on construction sites, in line with the company's coronavirus guidelines.

During the spring, we merged the Social Care and Educational Premises service area into our other two service areas. Our school operations now continue under Business Premises and our care home operations under Housing. This change was made to achieve synergy benefits. From a functional perspective, schools are more like business premises, while care facilities are closer to regular housing.

At the end of June, we signed a financing agreement with our banks that will run to the end of 2022 and create a good foundation for future business promotion. We are also planning to organise a rights issue, with the aim of raising gross funds of approximately EUR 20–25 million to increase the company's equity and cash assets. This share issue seeks to strengthen our ability to realise our strategy and develop a construction method based on modular prefabricated elements."

Outlook for 2020

In a stock exchange release dated 7 April 2020, Lehto withdrew its guidance on its 2020 financial outlook. The original guidance was withdrawn because the coronavirus pandemic has weakened visibility and created greater uncertainty in Lehto's business environment.

Although the coronavirus pandemic has not had any significant impacts on Lehto's business to date, its operating environment is still subject to many uncertainties. Lehto predicts that customers' difficulties in obtaining financing may delay or even cancel the launch of new construction projects. Due to the economic situation and general uncertainty in Finland, consumers and private investors have been more cautious in making purchase decisions on housing, which could delay the recognition of net sales and operating profit.

As employees work closely together on Lehto's construction sites, coronavirus cases may arise in spite of the preventive measures in place, and this could also slow down progress. Coronavirus cases among subcontractors and goods suppliers could also cause delays to projects.

Due to the prevailing uncertainly, Lehto is not issuing any guidance on its 2020 financial outlook.

Video presentation on the half-year report

Lehto will release a video presentation on its half-year report for January–June 2020 on its website on Thursday, 13 August 2020 at 9:00 a.m. (EET) at www.lehto.fi/en/investors. The presentation will also be available on the company's website after this.

Business development in the review period

GENERAL MARKET ENVIRONMENT

Although construction remained brisk in Finland throughout the first half of the year, the full-year volume for 2020 is expected to fall below that of 2019 and construction is expected to decline further in 2021.

In February 2020, before the coronavirus outbreak, RAKSU (a ministerial group at the Ministry of Finance that studies economic cycles in the construction sector) forecast that construction would be brisker than expected in 2020, as the construction of a large number of business premises was launched in late 2019. Construction is estimated to decline by 2–4 per cent in 2021. According to RAKSU, housing production has remained at a high level for several years. The construction of about 40,000 new housing units was started in 2019, and housing construction is now approaching its normal level. The group estimates that the construction of about 31,000–33,000 units will be launched in 2020. This figure is expected to further decline in 2021 and fall below 30,000 units.

In May 2020, the Confederation of Finnish Construction Industries RT predicted that the coronavirus' impact on the construction industry will only be seen later. Construction continued to be relatively brisk during the early part of the year, and the number of new startups was actually greater than in 2019. As a result of the coronavirus crisis, the forecasts for both the current and following year have since been lowered. The largest fall is expected in privately financed apartments. The Confederation of Finnish Construction Industries RT estimates that about 7,000 such units will be started in 2021. Approximately 19,800 privately financed housing units were started in 2019.

Financing has become more difficult to obtain during the review period. This has been particularly evident in the availability of financing for developer-contracted housing projects and customers' difficulties in obtaining financing for their business premises. In the construction sector, the established practice is for external guarantee institutions to arrange guarantees as collateral against contractual and warranty liabilities. Obtaining these guarantees also become more difficult during the review period.

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 customers' needs and are built using the structural and spatial solutions that have been developed or tried and tested by Lehto. This area serves local, national and international customers.

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

As of 1 May 2020, Business Premises has included some business from the now-discontinued Social Care and Educational Premises service area, that is, the design and construction of daycare centres and schools for national daycare operators and municipalities.

Business development in the review period

The service area's net sales experienced a year-on-year decrease of 8.5% to EUR 88.0 (96.2) million. The single biggest factor behind this decrease was the recognition of income from the Swedish daycare project during the comparison period. The service area's net sales in Finland were slightly lower than in the comparison period.

Fourteen business premises were completed and handed over during the review period, the largest of which was a commercial building in Vantaa. At the end of the review period, 13 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.

New contract agreements valued at EUR 98.7 million were signed during the period, increasing the order backlog to EUR 215.8 million (EUR 210.9 million on 31 December 2019).

Due to the coronavirus crisis, the start-up of a number of projects was delayed, and contract negotiations on some projects were halted. Projects started up before the crisis have progressed in line with plans and there have been no significant disruptions in their implementation.

Lehto has developed the Hippos2020 project with the City of Jyväskylä. Progress on the project is now more uncertain as a result of the coronavirus crisis. Lehto and the City of Jyväskylä are engaging in ongoing dialogue about the conditions necessary to continue with the project.

Complete renovation operations

Lehto's Building Renovation service area was discontinued at the beginning of 2019 and its ongoing projects were transferred to the Business Premises service area for completion. Its large loss-making projects were completed in late 2019.

The Business Premises service area still has two complete renovation projects to implement based on earlier commitments. The first of these projects is a complete renovation contract valued at about EUR 27 million in which an old office property is being renovated and converted for use as a hotel. The project's margin is at the target level, and work is under way and progressing as planned. The other project is a contract valued at about EUR 14 million in which old teaching facilities will be renovated and converted for use as housing. This project was launched during the review period and is expected to make a loss of EUR 0.1 million, which has been recognised as an expense in the result for the period.

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

School business

Our school business was operatively transferred to the Business Premises service area on 1 May 2020. Lehto's total volume in school and daycare operations was lower than in the comparison period, as the Botkyrka daycare centre project in Sweden was recognised as income during the comparison period. Two daycare centres and one school were completed and handed over during the review period. Five schools and one daycare centre were under construction at the end of the period.

On 11 June 2020, the Municipality of Inari and Lehto Group signed an agreement for the construction of a new educational centre in Ivalo. Construction began during the summer. The educational centre will be implemented as a lifecycle project that will include not only construction, but also demolition of the old school building and maintenance and user services for a period of 20 years.

HOUSING

In the Housing service area, Lehto builds new apartment blocks, balcony access blocks and terraced houses, and also carries out pipeline renovations, mainly in the Greater Helsinki area. The care home unit of Lehto's now-discontinued Social Care and Educational Premises service area was transferred to Housing on 1 May 2020. The majority of Lehto's housing projects are developer-contracted production, 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. Lehto housing is divided into two product families: Nero and Deco.

Most – more than 70% – of Lehto's housing properties are concrete Nero apartment buildings and are built using 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. The modules are completely prefabricated at Lehto's own factory and transported to the construction site, where they are lowered into the building through the roof and connected to each other. This building method ensures rapid completion of construction, improves quality and produces cost savings.

A growing share of Lehto's housing production comprises wooden balcony access blocks and apartment buildings. 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. Space elements are self-supporting modules that are built in the factory and assembled on site. Deco apartments involve a substantially higher amount of industrial prefabrication than Nero apartments.

In its care home business, Lehto designs and builds care homes and assisted living units for both care operators and municipalities. These construction projects are implemented either under ordinary construction contracts or as investment transactions, where Lehto signs a lease agreement with the service operator and sells the completed property to a fund that invests in properties in the sector. The majority of care homes are 1–2-storey concrete or wooden buildings.

Business development in the review period

Net sales in the Housing service area grew by 10.9% on the comparison period to EUR 166.4 (150.1) million. Several factors contributed to net sales growth: the handover of five developer-contracted projects and two projects in the German DWS portfolio in March, as well as a significant increase in the relative proportion of net sales accounted for by contract projects.

A total of 1,290 housing units were sold during the review period, most of which were built through contract projects. 210 of the sold units were related to the DWS portfolio. Housing sales to consumers and small investors were as expected in January-February, but the coronavirus crisis led to a clear fall in demand in March–May before returning to the projected level in June.

Sold housing units during the review period	1–6/2020	1–6/2019	1–12/2019
Contract	1,071	226	338
Developer contract	219	819	1,499
Sold housing units during the review period, total	**1,290**	**1,045**	**1,837**

During the review period, 774 (933) housing units were completed and the construction of 1,050 (701) new units was started. More than 60% of startups were in the Greater Helsinki area, about 30% in the Turku and Tampere regions, and the rest in Northern Finland. At the end of the review period, 1,671 units were under construction, which is more than at the turn of the year (1,485), but significantly lower than at the end of the comparison period (3,090).

Housing units under construction	1–6/2020	1–6/2019	1–12/2019
Under construction at the beginning of the period	1,485	3,322	3,322
+ started up during the period	1,050	701	1,035
- postponed project	-90		
- completed during the period	-774	-933	-2,872
Housing units under construction, total	**1,671**	**3,090**	**1,485**

At the end of the review period, 461 housing units were either under construction or completed yet unsold. This is noticeably less than during the comparison period (1,443), but slightly higher than the last quarter (432). This is due not only to the good trend in sales, but also the fact that the focus in housing projects has shifted from developer contracting to contract projects. In a contract project, all the housing units are considered to have been sold at the time of signing.

Unsold housing units	30 June 2020	30 June 2019	31 Dec 2019
Under construction	262	1,759	518
Completed	170	61	276
Unsold housing units, total	**432**	**1,820**	**794**
including DWS units	192	542	402

The Housing service area's order backlog grew to EUR 316.1 million by the end of the review period (EUR 270.9 million on 31 December 2019). The housing production order backlog includes the proportion of developer contracting projects that have been started but have not yet been recognised as net sales. A construction project is included in the order backlog once the decision to start construction has been made and the contract for a developer contracting project has been signed.

After the review period, a long project development phase was completed when the agreements for a housing complex project in Kalasatama, Helsinki were finalised. Lehto will build a complex of three housing companies in Kalasatama, comprising a total of five blocks of flats with more than 300 apartments as well as commercial premises. The complex will also include a parking facility, which will be built under its yard deck. Two of the housing companies have been sold to institutional investors. Lehto will implement the third housing company as a consumer project.

Pipeline renovations

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

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

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

Care home construction

The care home unit was operatively transferred to the Housing service area on 1 May 2020. During the review period, four care homes were completed and the construction of one new care home was started. Although demand for care homes has remained low, Lehto still signed agreements for the construction of new care homes during the review period. Lehto expects demand for care homes and assisted living to rise in the future.

SWEDISH OPERATIONS

During the review period, the focus of Swedish operations was on completing an ongoing daycare centre project and starting up the construction of wooden blocks of flats.

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

FACTORY PRODUCTION

The use of prefabricated products lies at the core of Lehto's business. Lehto manufactures a variety of building modules and elements at its own production facilities for its own use. Lehto has production facilities in Oulainen, Hartola, Humppila, Siikajoki and Ii, totalling about 50,000 m^2.

Capacity at production facilities was reduced during the review period. In addition, co-operation negotiations were started at the Humppila's factory, during which it was planned wheather to move the production of roof elements to the facilities of the Hartola factory. 255 people worked in factory operations at the end of the review period (285 on 31 December 2019).

Balance sheet and financing

CONSOLIDATED BALANCE SHEET, EUR MILLION	30 June 2020	30 June 2019	31 Dec 2019
Non-current assets	66.9	51.8	55.8
Current assets			
Inventories, excluding IFRS 16 assets	179.7	294.1	210.3
Inventories, IFRS 16 assets	53.5	118.1	40.1
Current receivables	91.0	142.0	86.3
Cash and cash equivalents	45.0	22.8	59.2
Total assets	**436.2**	**628.8**	**451.8**
Equity	105.8	125.2	112.1
Financial liabilities	111.7	174.8	142.4
Lease liabilities	60.0	85.2	46.8
Advances received	91.1	142.8	73.2
Other payables	67.6	100.9	77.3
Total equity and liabilities	**436.2**	**628.8**	**451.8**

The balance sheet total fell slightly compared with the 2019 closing date. The main changes in the balance sheet were a decrease in inventories and interest-bearing liabilities. Several housing projects were also handed over during the review period, which removed the inventories and liabilities relating to these ongoing projects from the balance sheet.

Financial liabilities rose to EUR 66.9 million. Deposit guarantees given in the second quarter increased non-current assets.

Cash and cash equivalents rose to EUR 45.0 million (EUR 59.2 million on 31 December 2019). Interest-bearing liabilities were reduced by a net total of EUR 30.7 million during the review period, and a total of EUR 10.6 million in deposit guarantees were given for contractual, warranty and other liabilities of projects. Deposit guarantees are not presented under cash and cash equivalents; they are instead included under current and non-current receivables.

Due to the repayment of debts, interest-bearing net debt (excluding lease liabilities in accordance with IFRS 16) decreased to EUR 66.7 million (EUR 152.0 million on 30 June 2019 and EUR 83.1 million on 31 December 2019).

At the end of the review period, the equity ratio (taking lease liabilities into consideration) stood at 30.7% (29.6% on 31 December 2019) and the net gearing ratio 119.7% (115.9% on 31 December 2019). The adjusted equity ratio (without the lease liabilities under IFRS 16) stood at 37.0% (33.8% on 31 December 2019) and the net gearing ratio was 63.0% (74.1%).

New financing agreement

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

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

Lehto is planning to organise a rights issue, with the aim of raising gross funds of approximately EUR 20–25 million to increase the company's equity and cash assets. Lehto Invest Oy is a company controlled by Lehto's largest shareholder, CEO Hannu Lehto. Lehto Invest has committed to voting for the Board of Directors' proposals regarding the planned rights issue at the Extraordinary General Meeting, and also to participate in the planned rights issue in a proportion equivalent to its holding on 30 June 2020.

Lehto Group Plc's Board of Directors will convene an Extraordinary General Meeting to decide on the authorisations required by the rights issue. The intention is to carry out the rights issue by the end of 2020, with OP Corporate Bank plc as the main organiser.

This financing agreement will not have a direct impact on Lehto's indebtness ratios. If realised in full, the gross income from the planned rights issue is expected to increase Lehto's equity ratio by about 3–4 percentage points (31 March 2020, equity ratio 35.5% excluding IFRS 16 items and 29.9% including IFRS 16 items).

Personnel and remuneration

The average number of personnel during the review period was 1,138 (1,547). The number of personnel at period end was 1,036 (1,274 on 31 December 2019), with temporary layoffs amounting to about 27 person years. About half of the Group's personnel are salaried employees and about half work at construction sites.

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

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

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

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

On 29 April 2020, Lehto announced that the Board of Directors will, at its own initiative, reduce its remuneration by 20 per cent from the amounts decided on by the AGM for a five-month period. The reduction in remuneration concerns both the cash and share components. By reducing its remuneration, the Board of Directors supports the profitability of the company and participates in the same savings actions as the company's management and operative personnel.

In addition, the CEO of Lehto Group Plc, the members of the Executive Board and the members of the management teams of the service areas have committed to lowering their earnings by 20 per cent for a five-month period. A substantial share of Lehto's salaried employees will be either partly or entirely laid off for an estimated period of five months.

Repurchasing and transferring company's own shares

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

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

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

The number of company shares is 58,309,558. After the repurchasing and transferring company's own shares as part of the incentive plan and to reward Board members, the number of shares held by the company is 249,509.

Resolutions of the Annual General Meeting

In accordance with the proposal of the Board of Directors, the Annual General Meeting of 14 April 2020 decided that no dividend will be paid for the financial year ending on 31 December 2019.

The AGM confirmed the number of Board members to be five. Pursuant to the proposal made by the shareholders' nomination committee, Seppo Laine, Mikko Räsänen and Anne Korkiakoski were reelected as members of the Board of Directors, and Helena Säteri and Raimo Lehtiö were elected as new members. Martti Karppinen and Pertti Korhonen left the Board of Directors. The Board members' term of office will expire at the next Annual General Meeting.

At its organisation meeting, the Board of Directors decided to elect Seppo Laine as its Chairman and also decided to establish an Audit Committee. Anne Korkiakoski was elected as the Chairman and Mikko Räsänen and Seppo Laine as the members of this committee.

The above-mentioned and other decisions of the Annual General Meeting were disclosed in the stock exchange release of 14 April 2020.

Risks and uncertainty factors

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

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

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

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

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

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

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

As a result of business growth, working capital is tied up in inventories and receivables in particular. If the company's business is expanding simultaneously in several service areas, large purchase commitments for construction sites are realised and receivable payments from customers are delayed, the company may find itself in a situation in which its additional financing costs will increase.

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

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

Key risks during the current financial year
The coronavirus pandemic coupled with a potential deterioration in Finland's general economic situation may result in continued weak demand for housing, a slower-than-expected trend in sales, and the need to lower prices to promote sales.

Both Lehto and its customers have found it increasingly difficult to obtain financing this year. This could result in delays to planned project startups, or even the complete cancelation of projects. Guarantees for construction projects have also become more difficult to obtain.

Lehto seeks to manage these risks with proactive sales efforts, monitoring sales trends, precise project monitoring and rapid corrective actions. Lehto has an ongoing Group-wide revitalisation programme that is seeking 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 and guarantees, Lehto is actively discussing options with financiers and guarantee institutions.

Shares and shareholdings

Lehto is listed on the official list of Nasdaq Helsinki Ltd. At the end of June, the company had an average number of 58,309,443 shares and 18,557 shareholders. The company holds 249,509 of its own shares. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 30 June 2020 was EUR 1.56. The highest rate of the share during the review period was EUR 2.63 and the lowest rate was EUR 1.19. A total of 22,647,444 shares in the company were traded during the period. The value of the trading was approximately EUR 41 million.

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

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

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

In a stock exchange release dated 30 June 2020, Lehto plans to arrange a rights issue with a target to raise gross proceeds of approximately EUR 20-25 million to increase its cash and equity position. The company's largest shareholder, Lehto Invest Oy, controlled entity of CEO Hannu Lehto, has committed to vote in favor of proposals related to the contemplated rights issue, made by the Board of Directors for the Extraordinary General Meeting, and participate in the rights issue at least in proportion to its holding at Lehto per 30 June 2020.

Lehto Group Plc's Board of Directors will convene an Extraordinary General Meeting to decide on granting the authorizations related to the rights issue. The objective is to have the rights issue completed by the end of year 2020. OP Corporate Bank plc will act as a sole lead manager and arranger in the contemplated rights issue.

Events after the review period

Co-operation negotiations concerning the Humppila factory were completed after the end of the review period. By decision of the employer, the production of roof elements at the Humppila factory will be transferred to the production facilities at the Hartola factory during the rest of 2020.

Vantaa 12 August 2020

Lehto Group Plc
Board of Directors

Further information:

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Tables

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR MILLION	1–6/2020	1–6/2019	1–12/2019
Net sales	**254.5**	**246.3**	**667.7**
Other operating income	0.5	1.7	1.5
Changes in inventories	-30.5	90.7	-35.7
Capitalised production	0.0	0.0	0.0
Raw materials and consumables used	-88.3	-140.2	-225.0
External services	-94.3	-164.9	-335.6
Employee benefit expenses	-34.0	-44.9	-82.2
Depreciation and amortisation	-3.8	-4.2	-8.2
Other operating expenses	-9.2	-12.2	-24.3
Operating result	**-5.1**	**-27.5**	**-41.8**
Financial income	0.1	0.2	0.3
Financial expenses	-2.1	-1.1	-4.0
Result before taxes	**-7.2**	**-28.5**	**-45.5**
Income taxes	1.4	5.7	9.8
Result for the period	**-5.8**	**-22.8**	**-35.7**
Result attributable to			
Equity holders of the parent company	-5.8	-22.8	-35.8
Non-controlling interest	0.0	0.0	0.0
	-5.8	**-22.8**	**-35.7**
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	0.0	-0.1	-0.1
	0.0	-0.1	-0.1
Comprehensive result, total	**-5.8**	**-22.8**	**-35.9**
Comprehensive result attributable to			
Equity holders of the parent company	-5.8	-22.8	-35.9
Non-controlling interest	0.0	0.0	0.0
	-5.8	**-22.8**	**-35.9**
Earnings per share calculated from the profit attributable to shareholders of the parent company, EUR per share			
Earnings per share, basic	-0.10	-0.39	-0.61
Earnings per share, diluted	-0.10	-0.39	-0.61

CONSOLIDATED BALANCE SHEET, EUR MILLION	June 30, 2020	June 30, 2019	Dec 31, 2019
Assets			
Non-current assets			
Goodwill	4.6	4.6	4.6
Other intangible assets	5.1	3.2	4.7
Property, plant and equipment	24.9	28.8	26.6
Investment properties	0.7	0.7	0.7
Investments and receivables	13.5	0.7	2.7
Deferred tax assets	18.0	13.7	16.5
Non-current assets total	66.9	51.8	55.8
Current assets			
Inventories	233.2	412.3	250.4
Trade and other receivables	91.0	142.0	86.3
Cash and cash equivalents	45.0	22.8	59.2
Current assets total	369.3	577.1	396.0
Assets total	**436.2**	**628.8**	**451.8**
Equity and liabilities			
Equity			
Share capital	0.1	0.1	0.1
Invested non-restricted equity reserve	69.2	69.2	69.2
Translation difference	-0.4	-0.2	-0.3
Retained earnings	42.7	78.9	78.9
Profit for the financial period	-5.8	-22.8	-35.8
Equity attributable to shareholders of the parent company	105.8	125.2	112.1
Non-controlling interest	0.0	0.0	0.0
Equity total	105.8	125.2	112.1
Non-current liabilities			
Deferred tax liabilities	0.5	0.7	0.6
Provisions	10.2	8.8	9.4
Financial liabilities	5.1	6.3	5.9
Lease liabilities	57.6	80.6	44.7
Other non-current liabilities	0.1	7.0	0.1
Non-current liabilities total	73.6	103.4	60.6
Current liabilities			
Financial liabilities	106.6	168.5	136.4
Lease liabilities	2.4	4.6	2.1
Advances received	91.1	142.8	73.2
Trade and other payables	56.7	84.4	67.2
Current liabilities total	256.8	400.2	279.0
Liabilities total	330.4	503.7	339.6
Equity and liabilities total	**436.2**	**628.8**	**451.8**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, EUR MILLION

	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY						
	Share capital	Invested non-restricted equity reserve	Translation diffe-rence	Retained ear-nings	Equity attribu-table to share-holders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2019	**0.1**	**69.2**	**-0.2**	**93.0**	**162.1**	**0.3**	**162.4**
Comprehensive income							
Result for the financial period			-0.1	-22.8	**-22.8**		**-22.8**
Total comprehensive income			***-0.1***	***-22.8***	***-22.8***		***-22.8***
Transactions with equity holders							
Distribution of dividends				-14.0	-14.0		-14.0
Share-based compensation				-0.1	-0.1		-0.1
Transactions with equity holders, total				***-14.1***	***-14.1***		***-14,1***
Changes in holdings in subsidiaries Acquisitions of non-controlling interest						-0.3	**-0.3**
Equity at 30 June 2019	**0.1**	**69.2**	**-0.2**	**56.2**	**125.2**	**0.0**	**125.2**
Equity at 1 January 2020	**0.1**	**69.2**	**-0.3**	**43.2**	**112.1**	**0.0**	**112.1**
Comprehensive income							
Result for the financial period			0.0	-5.8	**-5.8**		**-5.8**
Total comprehensive income			***0.0***	***-5.8***	***-5.8***		***-5.8***
Transactions with equity holders							
Distribution of dividends				0.0	**0.0**		**0.0**
Share-based compensation				0.0	**0.0**		**0.0**
Repurchasing own shares				-0.5	**-0.5**		**-0.5**
Transactions with equity holders, total				***-0.5***	***-0.5***		***-0,5***
Equity at 30 June 2020	**0.1**	**69.2**	**-0.4**	**36.9**	**105.8**	**0.0**	**105.8**

CONSOLIDATED CASH FLOW STATEMENT, EUR MILLION	1–6/2020	1–6/2019	1–12/2019
Cash flow from operating activities			
Profit for the financial period	-5.8	-22.8	-35.7
Adjustments:			
Non-cash items	0.8	1.8	3.2
Depreciation and amortisation	3.8	4.2	8.2
Financial income and expenses	2.1	0.9	3.7
Capital gains	0.0	-0.8	-0.8
Income taxes	-1.4	-5.7	-9.8
Changes in working capital:			
Change in trade and other receivables	-15.5	1.2	48.9
Change in inventories	31.4	-96.5	27.9
Change in trade and other payables	1.6	73.1	-53.6
Interest paid and other financial expenses	-3.4	-0.7	-3.3
Financial income received	0.1	0.2	0.3
Income taxes paid	0.0	-8.1	0.0
Net cash from operating activities	**13.5**	**-53.2**	**-11.1**
Cash flow from investments			
Investment in property, plant and equipment	-0.1	-1.9	-4.1
Investment in other intangible assets	-1.2	-1.5	-3.6
Sales of associates	0.0	1.6	1.6
Proceeds from sale of tangible and intangible assets	0.0	0.0	0.1
Financial assets at fair value through profit or loss	0.0	0.0	-0.6
Loans granted	-0.5	0.0	0.0
Repayments of loan receivables	0.5	0.0	0.0
Net cash from investments	**-1.3**	**-1.7**	**-6.6**
Cash flow from financing			
Loans drawn	19.1	63.0	132.6
Loans repaid	-43.8	-20.8	-90.1
Lease liabilities paid	-1.3	-3.5	-4.7
Acquisition of non-controlling interest	0.0	-0.3	-0.3
Dividends paid	0.0	-14.0	-14.0
Costs related to repurchasing own shares	-0.5		
Net cash used in financing activities	**-26.5**	**24.4**	**23.5**
Change in cash and cash equivalents (+/-)	*-14.2*	*-30.5*	*5.9*
Cash and cash equivalents at the beginning of the year	59.2	53.4	53.4
Effects of exchange rate change	0.0	-0.1	0.0
Cash and cash equivalents at the end of the period	45.0	22.8	59.2

KEY FIGURES	1–6/2020	1–6/2019	1–12/2019
Net sales, EUR million	254.5	246.3	667.7
Net sales, change %	3.3%	-15.6%	-7.5%
Operating result, EUR million	-5.1	-27.5	-41.8
Operating result, as % of net sales	-2.0%	-11.2%	-6.3%
Result for the period, EUR million	-5.8	-22.8	-35.7
Result for the period, as % of net sales	-2.3%	-9.2%	-5.4%
Equity ratio, %	30.7%	25.8%	29.6%
Gearing, %	63.4%	77.2%	49.9%
Net gearing ratio, %	119.7%	189.4%	115.9%
Return on equity, ROE, %	-5.0%	-16.9%	-26.0%
Return on investment, ROI, %	-1.5%	-9.3%	-14.3%
Order backlog, EUR million	531.9	752.5	481.8
Personnel during the period, average	1,138	1,547	1,454
Personnel at the end of period	1,036	1,532	1,274
Gross expenditure on assets, EUR million	1.2	3.3	7.7
Equity / share, EUR	1.82	2.15	1.92
Earnings per share, EUR, basic	-0.10	-0.39	-0.61
Earnings per share, EUR, diluted	-0.10	-0.39	-0.61
Average number of outstanding shares during the period, basic	58,157,523	58,283,826	58,296,740
Average number of outstanding shares during the period, diluted	58,253,663	58,406,908	58,424,817
Number of outstanding shares at the end of the period	58,059,934	58,309,443	58,309,443
Market value of share at the end of period, EUR million	90.6	153.9	137.0
Share prices, EUR			
Highest price, EUR	2.63	5.33	5.33
Lowest price, EUR	1.19	2.14	1.48
Average price, EUR	1.81	3.34	2.66
Price at the end of period, EUR	1.56	2.64	2.35

LIABILITIES AND GUARANTEES, EUR MILLION

LIABILITIES AND GUARANTEES, EUR MILLION	June 30, 2020	June 30, 2019	Dec 31, 2019
Loans covered by pledges on assets			
Loans from financial institutions	84.2	58.1	47.8
Debts on shares in unsold housing and real estate company shares	26.9	65.6	32.8
Instalment debts	0.4	0.7	0.6
Total	**111.5**	**124.5**	**81.2**
Guarantees			
Corporate mortgages	0.0	1.8	0.0
Real-estate mortgages	9.4	44.9	3.4
Pledges	47.0	27.7	60.5
Absolute guarantees	0.3	0.3	0.3
Total	**56.7**	**74.8**	**64.2**
Contract guarantees			
Production guarantees	38.5	40.9	40.7
Warranty guarantees	21.1	14.5	18.0
RS guarantees	26.1	37.5	35.0
Payment guarantees	2.6	4.0	4.1
Total	**88.4**	**96.9**	**97.8**

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

REVENUE ANALYSIS, EUR MILLION

REVENUE ANALYSIS, EUR MILLION	1–6/2020	1–6/2019	1–12/2019
Revenue recognised over time	180.7	168.1	349.1
Revenue recognised upon delivery	73.1	78.1	318.0
Rental income	0.6	0.2	0.6
Total	**254.5**	**246.3**	**667.7**

SEGMENT INFORMATION

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

RELATED PARTIES

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

Transactions with related parties

EUR million	Sales 1–6/2020	Sales 1–6/2019	Purchases 1–6/2020	Purchases 1–6/2019	Sales 1–12/2019	Purchases 1–12/2019
Key personnel and their controlled entities	66.0	2.0	1.7	2.8	30.9	4.6
Total	**66.0**	**2.0**	**1.7**	**2.8**	**30.9**	**4.6**

EUR million	Receivables June 30, 2020	Receivables June 30, 2019	Liabilities June 30, 2020	Liabilities June 30, 2019	Receivables Dec 31, 2019	Liabilities Dec 31, 2019
Key personnel and their controlled entities	6.5	1.0	0.1	0.4	4.5	0.0
Total	**6.5**	**1.0**	**0.1**	**0.4**	**4.5**	**0.0**

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