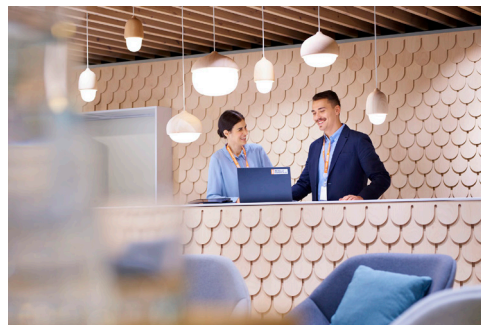


Annual Report 2021



Lehto Group Plc

Annual Report 2021



REPORT BY THE BOARD OF DIRECTORS 3

FINANCIAL STATEMENTS 19

Financial Statements

Consolidated statement of Comprehensive Income, IFRS.....	21
Consolidated Balance Sheet, IFRS	22
Consolidated cash flow statement, IFRS.....	23

Consolidated statement of Changes in Equity, IFRS.....	24
Accounting principles and Notes to the consolidated Financial Statements.....	25
Income Statement for the parent company, FAS.....	50
Balance Sheet for the parent company, FAS	51
Cash Flow Statement for the parent company, FAS.....	52
Notes to the Financial Statements for the parent company	53
Board of Directors' proposal for the distribution of profits	56
Signatures to the Annual Report and Financial Statements	56
The Auditor's Note.....	56
Group Key Figures.....	57
Shares and Shareholders.....	59

AUDITOR'S REPORT 60

CORPORATE GOVERNANCE STATEMENT 65

Introduction.....	67
Descriptions concerning corporate governance	67
General Meeting of Shareholders	67
Board of Directors.....	67
Board committees.....	71
Group Management.....	72
Main features of the internal control and risk management systems related to the financial reporting process.....	74
Risk management.....	74
Internal control.....	75
Internal controls over financial reporting.....	75

Risk management and internal control roles and responsibilities	76
Other information to be provided	78
Insider Administration	78
Related party administration.....	78
Internal auditing	78
Auditing	78

Annual Review and corporate responsibility report can be found online
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Report by the Board of Directors

Lehto Group Plc



Summary 2021

Group	1-12/2021	1-12/2020
Net sales from continuing operations, EUR million	435,9	544,7
Change in net sales from continuing operations, %	-20,0 %	-18,2 %
Operating result from continuing operations, EUR million	-24,0	0,1
Operating result from continuing operations, % of net sales	-5,5 %	0,0 %
Result from continuing operations, EUR million	-25,7	-5,1
Result from discontinued operations, EUR million	-6,9	-3,1
Result for the period, EUR million	-32,6	-8,2
Order backlog at period end, EUR million	474,1	426,3
Earnings per share, EUR	-0,37	-0,12
Cash and cash equivalents, EUR million	32,8	105,1
Financial liabilities, EUR million	45,8	80,4
Lease liabilities, EUR million	90,4	33,3
Equity ratio, %	27,2 %	38,7 %
Net gearing ratio, %	113,8 %	7,0 %
Equity ratio, excl. IFRS 16 lease liabilities, %	37,3 %	43,2 %
Net gearing ratio, excl. IFRS 16 lease liabilities, %	14,4 %	-19,9 %

2021 in brief:

- In 2021, net sales were down 20.0% on the previous year and amounted to EUR 435.9 (544.7) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.
- The operating result from continuing operations was EUR -24.0 (0.1) million. This operating loss was primarily the result of the significant losses made in six business premises projects. Their project margins had a total negative impact of about EUR -24 million in 2021. As a whole, the Business Premises service area had a negative impact of about EUR -29 million on the Group's 2021 operating result.
- In spite of increased material costs, the Housing service area exhibited a favourable earnings trend that was better than budgeted.
- Construction of 1,835 new apartments began during the financial year, which is 21.7% more than in the previous year (1,508). At the end of the review period, there were 2,002 (1,444) apartments under construction, the majority of which are related to projects for institutional investors.
- The result for the financial year was EUR -32.6 (-8.2) million, of which EUR -25.7 (-5.1) million was the full-year result for continuing operations. The result for discontinued operations in Sweden was EUR -6.9 million (-3.1 million in 2020).
- At the end of the financial year, cash and cash equivalents stood at EUR 32.8 (105.1) million and interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 45.8 (80.4) million. In addition to the loss-making result, cash and cash equivalents were reduced by loan repayments and growth in net working capital. The company is currently negotiating the renewal of its RCF financial agreement, which will end on 31 December 2022.
- The order backlog rose to EUR 474.1 million (EUR 426.3 million on 31 December 2020). The order backlog grew in both service areas.
- The Board of Directors proposes that no dividend be paid for the financial year.

NET SALES BY SERVICE AREA, EUR MILLION

	1-12/2021	1-12/2020	Change
Housing	286.1	372.9	-23.3%
Business Premises	149.8	171.7	-12.8%
Total	435.9	544.7	-20.0 %

Business objectives and focus areas

Under the leadership of its new CEO, who started in May 2021, Lehto has assessed its business objectives and priorities for the next few years and determined the needs for change and development.

The company's business will continue to revolve around its strategic cornerstones: design management, repeatable operating methods and solutions, industrial prefabrication and digital solutions. However, in order to implement its strategy effectively, Lehto will need to clarify its operating culture and methods, and these areas will be a focus area for development over the coming years.

In housing construction, the focus for the next few years will be on concrete apartment buildings, but wooden apartment buildings are expected to account for a growing share of total production. Lehto will be investing in both wooden construction and sustainable, carbon-neutral construction. Although more attention will be paid to the company's project and planning development, the results of this work will not be seen for several years.

The market for business premises construction is forecast to shift increasingly towards hybrid projects in which different types of users share the same properties.

The company will be strengthening its expertise in the implementation of these kinds of hybrid projects. Lehto has profound experience in the successful implementation of hall-like retail, logistics, sports and warehouse buildings, and wants to both utilise this existing experience and further develop its expertise.

The company will evaluate and possibly revise its strategic choices during the second quarter of 2022. Over the next few years, Lehto will focus on improving the profitability and competitiveness of projects. Profitability will be moderate, as the company is still in the investment phase and is focusing on enhancing its competitiveness and sustainable construction.

Business environment and business development in 2021

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

According to the estimate published by the Ministry of Finance in January 2022, Finland's GDP grew by 3.4% in 2021; it is forecast that growth will continue this year at a level of around 3.0%. A high saving rate and optimism among consumers have paved the way for rapid growth in private consumption and thereby to an increase in private investments. However, inflation and the threat of rising interest rates pose uncertainty to the forecasts. Public finances are still dominated by a structural imbalance between income and expenditure – this year, the national debt will rise to a record figure of EUR 136 billion. This increases risks in public finances.

The year-on-year change in consumer prices calculated by Statistics Finland was 3.5% in December 2021 and the annual rise in construction costs was as much as 10.2%. Costs of materials grew by 14.8% year-on-year and labour costs by 6.5%. Prices of wood and board products, electronic components and hard plastic products rose steeply and there were occasional problems with their availability. Likewise, the surging prices of energy towards the end of the year surprised the construction products industry. Some large suppliers have demanded that a special energy supplement should be added to contract prices.

In its business cycle review published in October 2021, the Confederation of Finnish Construction Industries RT expected to see small growth of 1-2% in 2021, above all due to the increase in housing construction. According to preliminary estimates, the total number of housing starts rose to 44,000 in 2021, of which privately financed housing accounted for 35,000 units. In 2022, start-ups will remain at

a high level of 40,000 (32,000 privately financed). Investor interest in housing continues to be high – the attractiveness of wooden apartment buildings in particular has risen among investors. There has been a growing need for space at home due to the increase in telecommuting caused by the coronavirus pandemic, but the rapid ongoing trend in costs, material and resource availability problems and tighter EU regulation concerning the terms and conditions of construction-stage financing may slow down housing production significantly.

The construction industry estimates that the construction of business premises swung to growth in 2021 due to the construction of industrial and warehouse facilities. In business and office construction, the coronavirus crisis led to uncertainty concerning the utilisation of space, which resulted in a year-on-year fall of almost 30% in the volume of new construction, but this decline will probably come to a halt in 2022. Start-ups in public service construction slowed down in the case of hospital and educational buildings. Growth is forecast for buildings in the care sector in 2022, while the construction of educational premises will most likely remain at the 2021 level.

HOUSING

In the Housing service area, Lehto builds new blocks of flats in growth centres, carries out pipeline renovations, largely in the Helsinki metropolitan area, and implements care homes and assisted living facilities around Finland.

Operations focus on growing university towns, where Lehto wants to enable households with low and medium incomes to live in high-quality housing. Affordably priced and comfortable urban homes are the result of diligent housing design and standardised construction solutions

created through long-term development efforts. In spite of Lehto's standardised approach to production, the residential properties are architecturally diverse. Residential projects are implemented using the PUU (WOOD) and KIVI (STONE) concepts developed by the company. Low-carbon solutions are considered to be an even more important competitive factor in the development of the concepts going forward.

The Housing service area is focused mainly on developer-contracted production where the company designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. These customers include private persons, private and institutional investors and funds.

Most of Lehto's current housing projects are concrete apartment buildings and are built using the kitchen/bathroom modules developed and manufactured by Lehto. These modules include the main electricity, water, heat, ventilation and sewerage solutions for the apartment and building. The modules are completely prefabricated at Lehto's own factories and transported to the construction site, where they are lowered into the building through the roof and connected to each other. This patented building method speeds up construction, improves quality and produces cost savings.

An increasing share of Lehto's housing production comprises apartment buildings that are constructed using wooden elements. Apartments in this product family are manufactured as space elements in the company's own factories in Finland – the interior surfaces of the apartment are fully finished when it leaves the factory. Space elements are self-supporting modules that are built at the factory and assembled on site. Wooden apartment buildings involve

significantly more industrial prefabrication than concrete apartment buildings. Thanks to this, the on-site schedule can be significantly shorter than in concrete construction. During the strategy period, Lehto seeks to increase the share of its production accounted for by wood construction.

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

Business development in 2021

The Housing service area's net sales experienced a year-on-year decrease of 23.3% to EUR 286.1 (372.9) million. In particular, the number of consumer projects recognised as revenue declined during the period. The volume of investor projects was also lower than in the comparison period. A total of 1,848 housing units were sold during the review period, most of which were built through investor projects.

Sold housing units during the review period

	1-12/2021	1-12/2020
To investors	1,529	1,582
To consumers	319	528
Sold housing units during the review period, total	1,848	2,110

During the period, 1,277 (1,459) housing units were completed and the construction of 1,835 (1,508) new units was started. The start-ups were located in Southern Finland, Western Finland and Northern Finland. There were 2,002 (1,444) housing units under construction at the end of the review period.

Housing units under construction

	1-12/2021	1-12/2020
Under construction at the beginning of the period	1,444	1,485
+ started up during the period	1,835	1,508
- postponed project	0	-90
- completed during the period	-1,277	-1,459
Housing units under construction, total	2,002	1,444

At the end of the review period, 456 housing units were either under construction or completed yet unsold. Of these, 26 were completed, unsold apartments. Although housing will continue to focus on investor projects, efforts are being made to moderately increase the share of consumer projects. In an investor project, all the housing units are considered to have been sold at the time of signing.

Unsold housing units

	1-12/2021	1-12/2020
Under construction	430	118
Completed	26	56
Unsold housing units, total	456	174

The Housing service area's order backlog stood at EUR 272.1 million at the end of the review period (EUR 232.1 million on 31 December 2020). During the review period, several properties were sold to institutional investors and consumer projects were started in the Helsinki Metropolitan Area, Turku, Tampere, Oulu and Rovaniemi. The housing production order backlog includes the proportion of investor projects that have been started but have not yet been recognised as net sales. A consumer project is included in the order backlog once the decision to start construction has been made and the contract for the project has been signed.

During the review period, among other things, a complex of three housing companies and five separate apartment buildings, with more than 300 apartments and business premises, was completed in Kalasatama, Helsinki.

Demand for housing construction remained good in spite of the uncertainty arising from the coronavirus pandemic. Several agreements with investors were signed during the review period for housing projects and also for care homes

and assisted living projects as part of a housing project.

The availability and price of financing are still slowing down start-ups of consumer projects.

The volume of care home construction was higher than in the comparison period, as some assisted living units were included in housing construction projects. A total of 4 (4) care homes were completed during the period. At period-end, 1 (3) care home was under construction, as well as some assisted living units as part of housing construction projects. Care home and assisted living projects are in the negotiation phase as both individual sites and as part of larger projects in city centres and suburban areas. Lehto expects demand for care homes and assisted living to rise in the longer term.

The pipeline renovation business has remained stable and 8 (11) projects were completed during the review period. Fifteen (11) properties were under construction at the end of the review period. Work on construction sites has continued to go well in spite of the exceptional circumstances resulting from the pandemic. The required communication with housing companies and their shareholders has been carried out remotely. Demand has remained good and in the company's opinion the need for pipeline renovations will continue to be steady in the future.

On 16 December 2021, Lehto announced that Tero Karislahti, 39, had been appointed EVP of the Housing service area and a member of the Group Executive Board as of 10 June 2022. Karislahti has a master's degree in technology and 18 years' experience in a variety of positions in the YIT construction group. Since 2015, Karislahti has been working in management positions in housing construction, including as regional director.



BUSINESS PREMISES

In the Business Premises service area, Lehto builds office and retail premises; logistics, warehouse and production facilities; leisure facilities; large shopping and activity centres; and schools and daycare centres.

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

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

Business development in 2021

The service area's net sales experienced a year-on-year decrease of 12.8% to EUR 149.8 (171.7) million. Net sales fell in the school and daycare business in particular as a result of Lehto's more selective approach to projects, but net sales from hall-like building projects also decreased due to a decline in the number of projects.

Eighteen business premises projects were completed and handed over during the review period (29 projects in 2020). At the end of the period, 15 (15) projects were under construction, most notably a local service centre in Kivistö,

Vantaa; a twin tower in Malmi, Helsinki; an office building for Fennovoima in Pyhäjoki, a pulp warehouse at the Port of Kemi and school projects in Ivalo and Kouvola.

New contract agreements valued at EUR 157.6 million were signed during the period and the order backlog rose to EUR 202.0 million (EUR 194.2 million on 31 December 2020). The most significant agreements signed were for a multispace office building in Tikkurila, Vantaa; a local service centre in Kivistö; a pulp warehouse at the Port of Kemi; and an office for Metsä-Fibre's bioproduct mill in Kemi. The construction site for the multispace office building in Tikkurila is being started up in spring 2022, and the other projects were under construction at the end of the review period.

The school and daycare centre business performed in line with plans during the review period. One (8) project was handed over during the review period and two (2) school projects are under construction: in Ivalo and Kouvola. The Ivalo educational centre is being implemented as a lifecycle project that includes not only construction, but also demolition of the old school building and maintenance and user services for a period of 20 years. The Sarkola School in Kouvola will be implemented as a turnkey project.

Six of Lehto's business premises projects are significantly unprofitable. Their project margins had a total negative impact of about EUR -24 million in 2021. Two are renovation projects (approx. EUR -10 million), two are hotel projects (approx. EUR -4 million), one is an office project (approx. EUR -8 million), and one is an industrial property (approx. EUR -2 million). The losses arose from shortcomings in project preparation, problems and delays in project implementation, agreeing on contract prices at an early stage, and increased material costs. Lehto decided to discontinue

its renovation business in 2019, and the commitments related to the two renovation projects in question date from 2017–2019.

Lehto has developed the Hippos2020 project with the City of Jyväskylä. Uncertainties related to the project have increased due to the coronavirus crisis, but Lehto and the City of Jyväskylä are still developing the project.

Lehto has implemented operational changes to improve project risk management in the Business Premises service area, and these will be implemented in early 2022 under the leadership of the service area's new EVP. When evaluating prospective projects, the company will pay particular attention to their suitability with respect to the company's resources and strategy. The company is also planning to make structural and operational changes aimed at reducing its cost level.

SWEDISH OPERATIONS

On 31 December 2021, Lehto announced the discontinuation of its operations in Sweden. The reason for this decision is Lehto's need to focus on developing the competitiveness of its business in Finland, coupled with low business volumes in Sweden. In 2017–2020, Lehto carried out two construction projects in Sweden and also developed some housing construction projects. In 2020–2021, Lehto was developing a type of wooden apartment building suited to the Swedish market and a pilot project has been prepared. The results of this development work can also be utilised in Finland.

FACTORY PRODUCTION

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

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

Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii, totalling about 50,000 m². At the end of the review period, 253 people worked in factory operations (236 on 31 December 2020). Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.



Balance sheet and financial position

Consolidated balance sheet, EUR million	31 Dec 2021	31 Dec 2020
Non-current assets	49.2	63.4
Current assets		
Inventories, excluding IFRS 16 assets	108.3	107.7
Inventories, IFRS 16 assets	86.6	28.0
Current receivables	90.1	79.7
Cash and cash equivalents	32.8	105.1
Total assets	367.0	383.8
Equity	90.9	123.6
Financial liabilities	45.8	80.4
Lease liabilities	90.4	33.3
Advances received	32.4	64.4
Other payables	107.4	82.1
Total equity and liabilities	367.0	383.8

The balance sheet total fell slightly from the 2020 closing date to EUR 367.0 million. The key figures for financial standing and indebtedness weakened during the year, as shareholders' equity and cash and cash equivalents decreased due to the loss-making result. Cash and cash equivalents were also weakened by loan repayments of EUR 28.7 million and an increase of EUR 25.6 million in working capital. The equity ratio (taking lease liabilities into consideration) stood at 27.2% (38.7% on 31 December 2020) and the net gearing ratio was 113.8% (7.0% on 31 December 2020). The equity ratio without the lease liabilities under IFRS 16 stood at 37.3% (43.2%) and the net gearing ratio was 14.4% (-19.9%).

Assets

Non-current assets amounted to EUR 49.2 million at the end of the review period (EUR 63.4 million on 31 December 2020). Non-current assets include goodwill of EUR 4.6 (4.6)

million, EUR 10.6 (11.4) million in factory buildings and EUR 3.9 (4.9) million in machinery and equipment. The company recorded a EUR 1.8 million impairment included in intangible assets in the balance sheet on product development activities for a type of wooden apartment building suited to the Swedish market.

Inventories rose to EUR 194.9 (135.7) million, mainly due to a EUR 58.2 million increase in inventories in accordance with IFRS 16. Current receivables rose slightly to EUR 90.1 (79.7) million and included trade receivables of EUR 51.6 (46.3) million and percentage-of-completion receivables of EUR 36.6 (20.5) million. Cash and cash equivalents totalled EUR 32.8 million on 31 December 2021 (EUR 105.1 million on 31 December 2020). The decrease in cash and cash equivalents was mainly due growth in net working capital and also the repayment of financial liabilities.

Equity and liabilities

As a consequence of the loss for the financial year, shareholders' equity fell to EUR 90.9 (123.6) million during the period. Financial liabilities excluding lease liabilities declined to EUR 45.8 million during the review period (EUR 80.4 million on 31 December 2020).

The table below presents a breakdown of interest-bearing liabilities at the balance sheet date:

Interest-bearing liabilities	31 Dec 2021	31 Dec 2020
Revolving credit facility (RCF)	25.1	39.0
Project-specific loans	3.2	5.0
RS loans related to unsold apartments in developer contracted housing projects	7.4	13.2
Investment loans	4.7	5.8
VAT payment arrangement	5.3	17.3
Financial liabilities, total	45.8	80.4
IFRS 16 lease liabilities	90.5	33.3
Interest-bearing liabilities, total	136.3	113.7

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

Advances received declined to EUR 32.4 (64.4) million. Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales. Other liabilities rose to EUR 107.4 (82.1) million. They include liabilities related to ordinary business operations, such as EUR 46.0 (36.1) million in trade payables and EUR 8.1 (9.6) million in VAT liabilities.

Cash flow statement, EUR million	1-12/2021	1-12/2020
Cash flow from operating activities		
Profit for the period + adjustments to accrual-based items	-14.9	2.4
Change in net working capital	-25.6	71.1
Total cash flow from operating activities	-40.5	73.6
Cash flow from investments	-0.7	-1.7
Cash flow from financing	-31.1	-26.0
Change in cash and cash equivalents	-72.3	45.8
Cash and cash equivalents at the beginning of the period	105.1	59.2
Cash and cash equivalents at the end of the period	32.8	105.1

Cash and cash equivalents decreased by EUR 72.3 million to EUR 32.8 (105.1) million during 2021. The main contributing factors were an increase in net working capital and the repayment of financial liabilities.

Net cash flow from operating activities was EUR -40.5 (+73.6) million, which includes a negative impact of EUR 25.6 (70.9) million resulting from growth in net working capital. The increase in net working capital was caused by a decrease in advances received and other non-interest-bearing liabilities. Net cash flow from investments was EUR -0.7 (-1.7) million, of which EUR -0.4 (-0.5) million relates to tangible assets, mainly replacement investments, and EUR -0.8 (-1.4) million to investments related to intangible assets. Net cash flow from financing was EUR -31.1 (-26.0) million. No new loans were withdrawn during 2021 (EUR 39.9 million in 2020), but loan payments totalling EUR 28.7 (82.3) million were made.





Financial position, EUR million	Excl. IFRS 16 lease liabilities			Incl. IFRS 16 lease liabilities		
	31 Dec 2021	31 Dec 2020	Change	31 Dec 2021	31 Dec 2020	Change
Cash and liquid assets	32.8	105.1	-72.3	32.8	105.1	-72.3
Interest-bearing liabilities	45.8	80.4	-34.5	136.3	113.7	22.6
Interest-bearing net debt	13.1	-24.7	37.7	103.5	8.6	94.9
Equity ratio, %	37.3%	43.2%	-6.0%	27.2%	38.7%	-11.5%
Net gearing ratio, %	14.4%	-19.9%	34.3%	113.8%	7.0%	106.9%

Key financing agreements

Revolving credit facility (RCF)

Lehto has a Revolving Credit Facility (RCF) with a bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank AB. The RCF is in force until 31 December 2022 and on the balance sheet date EUR 25.1 million of the facility was in use. No further funds can be withdrawn from the RCF. According to the agreement, some of the credit will be paid back before the end of the contractual period and part of the credit will fall due at the end of the agreement. The agreement includes both partial guarantees and financial covenants on EBITDA, interest-bearing net debt and net gearing as well as other covenants. These covenants may also impact the distribution of dividends while the RCF is in force.

At the end of the financial year, the covenant terms of the RCF were not met, and Lehto had permission from the bank syndicate to temporarily exceed the covenant limits

set in the agreement. On the closing date, Lehto was in negotiations with the financing banks to refinance the RCF. The company has agreed with the banks that 11 March 2022 is the deadline by which the company and the banks will seek to create a financing solution that will enable the company to implement its strategy.

VAT payment arrangement

In July 2020, Lehto made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 21.0 million. The VAT payment arrangement was made when the Tax Administration offered companies the possibility to prepare for any potential impacts of the coronavirus pandemic by loaning back VAT paid in spring 2020. The repayment period under the payment arrangement is 22 months and the first instalment was paid in September 2020. The interest rate on the payment arrangement is 2.5%. At the end of the financial year, the remaining commitments under the payment arrangement amounted to EUR 5.3 million.

Personnel

The average number of Group personnel during the review period was 1,043 (1,115 in 2020). The number of personnel at period-end was 1,042 (1,034). About half of the Group's personnel are salaried employees and about half work at construction sites.

On 31 March 2021, Lehto carried out a targeted bonus issue related to the payment of the incentive for the 2018 earnings period of the share-based incentive plan. In the share issue, Lehto Group Plc granted 69,544 treasury shares to key employees of the Lehto Group in accordance with the terms of the incentive plan.

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.

Research and development

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

The development of modules, components and space concepts is part of continuing operations, and the related costs are largely recorded as an expense in the income statement. Capitalised development expenditure during the financial year amounted to EUR 0.7 (1.4) million. The most significant development outlays concern the design of industrially manufactured products and the development of product factory operations.

Risks and uncertainty factors

Lehto assesses risks in its daily operations on a continual basis and develops Group-wide risk management practices together with its operative companies. Through the continuous development of risk management, we seek to attract new business opportunities and partners, as well as to further improve the profitability and predictability of our operations. Further improvement of risk management is one of the 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 related to year 2022

During the year 2021, the prices of many construction materials increased and there were issues with the availability of certain materials. This applies to wood, processed

wood, concrete elements, insulation and technical building components in particular. The realisation of these risks could have a significant impact on Lehto's full-year net sales and operating result for 2022. It is possible that prices will remain high or continue to rise, and there may also be problems with the availability of materials used in the manufacture of Lehto's prefabricated elements.

Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks.

The coronavirus pandemic is still causing general uncertainty in the customer and financing market, which may cause demand for housing to weaken, and sales prices may have to be lowered to promote sales. It is still possible that uncertainty will cause business premises customers to delay their investment decisions.

In recent years, it has been more difficult to obtain debt financing and guarantees for construction projects. If Lehto does not obtain debt financing, the company will not be able to launch new projects, which may lead to delays and further decreases in net sales and the operating result.

Lehto is currently working on both construction contracts and developer-contracted projects in both the Housing and Business Premises service areas. The consistency of project cost estimates, the progress and timing of sales of these projects have an impact on revenue and operating profit accumulation.

and impact on Finland's general economic development.

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

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

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

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

Responsibility and environmental issues

The construction industry plays a major role on climate change mitigation and adaptation, and in reducing the amount of waste. Lehto wants to renew the construction industry, and sustainable construction will play a major role in the company's future. The aim is to combine smart and sustainable construction and digitalisation. Lehto is currently developing, for example, solutions for wood construction that utilise factory production that is more ecological than

traditional construction. Production at factories makes it possible to reduce both waste and emissions.

Helena Säteri is member in the Board of Directors. As a former Director-General of the Ministry of the Environment, she brings a strong perspective on environmental issues and sustainable construction to the work of the Board. Lehto is a member of the cooperation network of the Green Building Council Finland (FIGBC) with the aim of contributing to the creation of sustainable construction solutions. FIGBC and its networks are guiding the way in operating models for sustainable development.

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

The CEO is responsible for Lehto Group's responsibility and the CFO for responsibility reporting. Operational responsibility work is managed on a decentralised basis in accordance with our key focus areas, primarily by the EVCs of housing, business premises and factory production, and by the Chief Procurement Officer in the case of centralized purchasing. Responsibility work related to personnel is managed primarily by the HR director. 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 nonfinancial information in the Accounting Act.

The Group's legal structure

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

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

Impacts of the Covid-19 pandemic

In spite of the exceptional circumstances caused by the pandemic, the company's business has continued to perform relatively well. The implementation of some of the company's projects has been slightly delayed due to coronavirus infections. Project-related uncertainties have increased due to the coronavirus crisis, but demand for housing construction has remained good in spite of this. The ongoing coronavirus pandemic is still causing uncertainty in the market, which may cause demand for construction to weaken, and sales prices may have to be lowered to promote sales.

Shares and shareholdings

Lehto is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of December was 87,339,410

and the company had 18,061 shareholders. The company holds 179,965 of its own shares. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 31 December 2021 was EUR 0.86. The share's highest rate during the review period was EUR 2.305 and its lowest rate was EUR 0.721. A total of 68,750,986 shares in the company were traded during the period with a trading value of approximately EUR 93 million.

Lehto's Annual General Meeting of 28 May 2021 authorised the Board to decide on the purchase of a maximum of 8,733,000 of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company.

The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 8,733,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a cogent financial reason for it from the point of view of the company or, in case of a bonus issue, a particularly cogent financial reason from the point of view of the company and the benefit of all its shareholders. The Board of Directors decides on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares.

Among other things, the authorisation can be used to develop capital structure, to expand the ownership base,

to implement incentive systems, and as a consideration in transactions when the company purchases assets linked to its operations.

The authorisation is valid until 30 June 2022 and replaces the company's previous share issue and option authorisations.

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

Transfer of own shares

In March 2021, with the authorization given by the Annual General Meeting held on April 14, 2020, the company carried out a directed share issue without consideration, 69,544 shares, to implement the share-based incentive plan.

Resolutions of Annual General Meeting

The Annual General Meeting of shareholders of Lehto Group Plc took place in Kempele in the headquarters of the company in the address Voimatie 6B on 28 May 2021. The Annual General Meeting approved the financial statements for 2020 and discharged the Members of the Board of Directors, the Chairman of the Board of Directors, and the CEO from liability.

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

The Annual General Meeting resolved in accordance with the proposal by the Board of Directors that no dividend shall be paid for the financial year that ended on 31 December 2020.

The handling of the Remuneration Report for governing bodies

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

Election and remuneration of the Chairman and the Members of the Board of Directors

The Annual General Meeting resolved that the Board of Directors shall consist of six members.

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

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 attended Board meeting agreed in the annual meeting agenda or a meeting

outside the annual meeting agenda exceeding two hours, 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 attended meeting of the Audit Committee agreed in the annual meeting agenda or a meeting outside the annual meeting agenda exceeding two hours shall be paid a remuneration of EUR 400 for the Member of the Committee and EUR 600 for the Chairman of the Committee.

Attendance fees shall not be paid to such Members of the Board of Directors that are employed by the company. Reasonable travel expenses incurred in connection with Board meetings or Committee meetings shall be paid in accordance with the instructions of the tax authority. The per diem allowances are included in the attendance fee.

Election and remuneration of the auditor

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

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

The Annual General Meeting authorised the Board to decide on the purchase of the company's own shares as one or several instalments using assets belonging to the shareholders' surplus, such that the maximum quantity purchased be 8,733,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki Ltd in accordance with its rules or using another method. The consideration paid for the purchased shares should be based on the market price.

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

The Board of Directors is authorised to make decisions on all other conditions and circumstances pertaining to the purchase of own shares. The purchase of own shares reduces the shareholders' surplus. The authorisation is proposed to remain valid until the end of the following annual general meeting but in any case, not longer than 30 June 2022. The authorisation shall replace the company's previous authorisations regarding the repurchase of company's own shares.

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

The Annual General Meeting decided to authorise the Board of Directors to decide on the issue of a maximum of 8,733,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or without consideration. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the

company's point of view and the benefit of all its shareholders. The Board of Directors is authorised to decide on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares. Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, when the company purchases assets linked to its operations, or to carry out incentive schemes. The authorisation is proposed to be valid until the end of the following annual general meeting but in any case, no later than 30th June 2022. The authorisation shall replace the company's previous share issue and option authorisations.

The resolutions of the organizing meeting of the Board of Directors

The Board of Directors decided to establish an Audit committee. Anne Korkiakoski was elected as the Chairman and Seppo Laine and Hannu Lehto as the members of the committee.

Events after the review period

27 January 2022: Lehto announced that Anne Lehto, Mikko Kinnunen and Ari Saartoala had been appointed as members of the Shareholders' Nomination Committee. The task of the Nomination Committee is to prepare proposals regarding members of the Board of Directors and their fees for the Annual General Meeting 2022.

28 January 2022: Lehto announced that, according to unaudited calculations, the company's 2021 net sales would be down about 20 per cent on the previous year to EUR 435

million, and that the operating loss from continuing operations would be approximately EUR -24 million.

Lehto has implemented organizational changes in February. The development and marketing functions of the parent company of the group have been transferred to the Housing service area. The aim of the reorganization is to improve the company's competitiveness and profitability. In connection with the reorganization, Arto Tolonen, CDO, and Antti Asteljoki, CCO, will leave the Group Executive Board.

Within the company, Antti Asteljoki will take over the position of Marketing and Customer Relationship Director in the Housing service area with the responsibility for leading the new Customer Relations unit. The reorganization due to this unit will streamline the organization and functions. With Asteljoki's experience, Lehto is seeking a significant change and a leading position in the industry in the market- and customer orientation in housing business. Arto Tolonen will change employer in connection with the change, but will still work at Lehto until the beginning of March.

After the changes have been implemented, the following persons will continue in the Group's Executive Board:

- Juuso Hietanen, CEO
- Veli-Pekka Paloranta, CFO
- Matti Koskela, EVP, Business Premises
- Timo Reiniluoto, EVP Business Support Services
- Jukka Haapalainen, EVP Factory Production
- Kaarle Törrönen, Vice President, Human Resources

In June 2022, Tero Karislahti, who has been appointed EVP, Housing Service Area, will join the Group Executive Board.

Outlook for 2022

According to Statistics Finland building cost rose by 10.2% in December 2021 from one year back and the costs of materials went up by 14.8%. Lehto has ongoing or starting projects with fixed sales price and the significant increase of construction costs will have negative effect on projects' profitability also in year 2022. Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks.

Lehto is converting some consumer housing projects to investor projects where net sales and margins are booked according to percentage of completion. This causes some net sales, margins and cash flows from the projects to accumulate earlier in year 2022 instead of 2023.

The most important target for the year 2022 is to improve profitability where the project risk management in all entities is the key thing. The company will continue the earlier commenced actions of managing the project risks and improving the operative efficiency. These actions are estimated to have positive effect on profitability, starting from the second half of 2022, but especially on year 2023.

Lehto estimates that Net Sales from continuing operations in year 2022 will be at level of 2021 (EUR 435.9 million in 2021) and operating result from continuing operations to be EUR 5-10 million negative (EUR -24.0 million in 2021). Lehto will disclose its long-term strategic targets during the second quarter 2022.

Additional information of risks and uncertainties is available in this bulletin in chapter "Risks and uncertainty factors".

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

The parent company's distributable equity on the balance sheet of 31 December 2021 amounts to EUR 67,249,763.65, of which the result for the financial year is EUR -19,314,695.05.

The Board of Directors will propose to the Annual General Meeting of that no dividends be paid for the 1 January–31 December 2021 financial year.

Vantaa, 16 February 2022

Lehto Group Plc

Board of Directors



Financial Statements

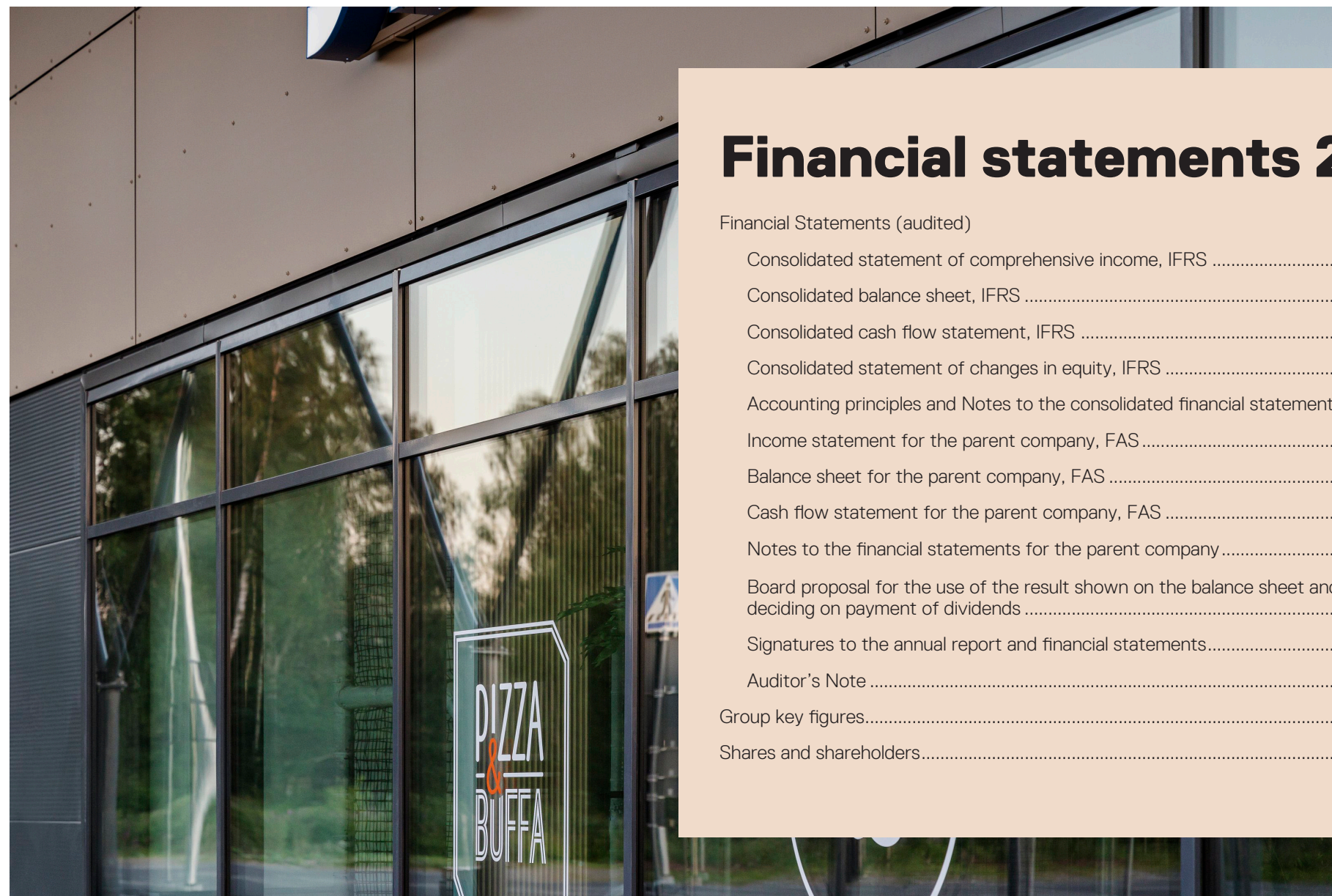


Lehto Group Plc

Financial statements 2021

Financial Statements (audited)

Consolidated statement of comprehensive income, IFRS	21
Consolidated balance sheet, IFRS	22
Consolidated cash flow statement, IFRS	23
Consolidated statement of changes in equity, IFRS	24
Accounting principles and Notes to the consolidated financial statements.....	25
Income statement for the parent company, FAS	50
Balance sheet for the parent company, FAS	51
Cash flow statement for the parent company, FAS	52
Notes to the financial statements for the parent company	53
Board proposal for the use of the result shown on the balance sheet and for deciding on payment of dividends	56
Signatures to the annual report and financial statements.....	56
Auditor's Note	56
Group key figures.....	57
Shares and shareholders.....	59





Consolidated statement of Comprehensive Income, IFRS

	Note	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Continuing operations			
Net sales	3	435 881	544 651
Other operating income	4	497	970
Changes in inventories of finished goods and work in progress		-6 837	-98 787
Material and services		-364 744	-357 163
Employee benefit expenses	5	-64 339	-62 977
Depreciation and impairments	6	-6 963	-7 605
Other operating expenses	7	-17 540	-19 005
Operating result		-24 044	83
Financial income	8	105	271
Financial expenses	8	-2 932	-4 327
Result before taxes		-26 872	-3 972
Income taxes	9, 17	1 179	-1 150
Result for the financial year from continuing operations		-25 693	-5 122
Result for the financial year from discontinued operations	2	-6 922	-3 074
Result for the financial year		-32 614	-8 196

	Note	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Result attributable to			
Equity holders of the parent company		-32 615	-8 196
Non-controlling interest		1	1
		-32 614	-8 196
Components of other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Translation difference	23	-13	78
		-13	78
Comprehensive result attributable to			
Equity holders of the parent company		-32 628	-8 119
Non-controlling interest		1	1
		-32 627	-8 118
Earnings per share calculated from the result attributable to equity holders of the parent company, EUR per share			
Issue-adjusted average number of outstanding shares during the period, basic	10	87 142 297	71 012 014
Issue-adjusted average number of outstanding shares during the period, diluted		87 447 100	71 330 955
Earnings per share, basic, EUR/share		-0,37	-0,12
Earnings per share, diluted, EUR/share		-0,37	-0,12
Earnings per share, continuing operations, basic, EUR/share		-0,29	-0,07
Earnings per share, continuing operations, diluted, EUR/share		-0,29	-0,07
Earnings per share, discontinued operations, basic, EUR/share		-0,08	-0,04
Earnings per share, discontinued operations, diluted, EUR/share		-0,08	-0,04



Consolidated Balance Sheet, IFRS

ASSETS	Note	31 Dec 2021	31 Dec 2020
Non-current assets			
Goodwill	11	4 624	4 624
Other intangible assets	12	1 989	4 547
Property, plant and equipment	13	19 154	22 672
Investment properties	14	693	711
Other financial assets	15	771	771
Receivables	16	8 177	14 640
Deferred tax assets	17	13 797	15 401
Non-current assets, total		49 206	63 365
Current assets			
Inventories	18	194 878	135 688
Trade and other receivables	19	90 131	79 691
Financial assets at fair value through profit or loss	20	316	314
Cash and cash equivalents	21	32 453	104 741
Current assets, total		317 778	320 434
TOTAL ASSETS		366 984	383 799

EQUITY AND LIABILITIES	Note	31 Dec 2021	31 Dec 2020
Equity			
Share capital		100	100
SVOP - Reserve for invested unrestricted equity		88 695	88 695
Translation difference		-254	-241
Retained earnings		2 389	35 076
Capital attributable to equity holders of the parent company		90 930	123 629
Non-controlling interest		8	7
Equity, total	22	90 938	123 636
Non-current liabilities			
Deferred tax liabilities	17	221	337
Provisions	23	22 028	12 522
Financial liabilities	24	3 132	9 976
Lease liabilities	24	88 170	31 509
Other non-current liabilities	25	115	115
Non-current liabilities, total		113 665	54 458
Current liabilities			
Advances received	25	32 397	64 397
Trade and other payables	25	85 004	69 069
Current income tax liabilities	25	3	50
Financial liabilities	26	42 701	70 402
Lease liabilities	26	2 275	1 787
Current liabilities, total		162 381	205 705
Liabilities, total		276 046	260 163
TOTAL EQUITY AND LIABILITIES		366 984	383 799



Consolidated Cash Flow Statement, IFRS

	Note	31 Dec 2021	31 Dec 2020
Cash flow from operating activities			
Result for the financial year		-32 614	-8 196
Adjustments:			
Non-cash items		9 436	3 721
Depreciation and impairment		8 827	7 626
Financial income and expenses		3 269	3 981
Capital gains		-33	-6
Income taxes		1 462	1 348
Changes in working capital:			
Change in trade and other receivables		-4 456	-6 354
Change in inventories		413	103 962
Change in trade and other payables		-21 522	-26 475
Interest paid and other financial expenses		-5 385	-6 237
Financial income received		107	343
Income taxes paid		-6	-138
Net cash from operating activities		-40 503	73 574

	Note	31 Dec 2021	31 Dec 2020
Cash flow from investments			
Investments in property, plant and equipment		-414	-544
Investments in intangible assets		-762	-1 440
Proceeds from sale of property, plant and equipment and intangible assets		33	6
Financial assets at fair value through profit or loss		0	7
Repayments of loan receivables		749	775
Loans granted		-270	-530
Dividends received		0	0
Net cash from investments		-665	-1 725
Cash flow from financing			
Loans drawn	24		39 931
Loans repaid	24	-28 732	-82 258
Lease liabilities paid	24	-2 368	-2 540
Dividends paid			-7
Paid share issue			20 321
Costs related to paid share issue			-977
Costs related to repurchasing own shares			-504
Net cash used in financing activities		-31 100	-26 035
Change in cash and cash equivalents (+/-)		-72 269	45 814
Effects of exchange rate change		-17	17
Cash and cash equivalents at the beginning of the financial year		105 054	59 224
Cash and cash equivalents at the end of the financial year	20, 21	32 769	105 054



Consolidated statement of Changes in Equity, IFRS

CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	SVOP - Reserve for invested unrestricted equity	Translation difference	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity on 1 January 2020	100	69 155	-319	43 184	112 120	6	112 126
Comprehensive income							
Result for the financial period				-8 196	-8 196	1	-8 196
Other comprehensive income items							
Translation difference			78		78		78
Total comprehensive income			78	-8 196	-8 119	1	-8 118
Transactions with equity holders							
Distribution of dividends				-7	-7		-7
Share issue		20 321			20 321		20 321
Direct expenses related to share issue		-782			-782		-782
Share-based compensation				600	600		600
Repurchasing own shares				-504	-504		-504
Transactions with equity holders, total		19 539		88	19 628		19 628
Equity on 31 December 2020	100	88 695	-241	35 076	123 629	7	123 636
Equity on 1 January 2021	100	88 695	-241	35 076	123 629	7	123 636
Comprehensive income							
Result for the financial period				-32 615	-32 615	1	-32 614
Other comprehensive income items							
Translation difference			-13		-13		-13
Total comprehensive income			-13	-32 615	-32 628	1	-32 627
Transactions with equity holders							
Share-based compensation				-71	-71		-71
Transactions with equity holders, total				-71	-71		-71
Equity on 31 December 2021	100	88 695	-254	2 389	90 930	8	90 938

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.

Lehto Group Plc's Board of Directors approved the financial statements on 16 February 2022. 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. Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland.

CONTINUITY OF OPERATIONS

The consolidated financial statements have been prepared in accordance with the going concern principle. At the time of publishing the financial statements, the company estimates that its working capital will be sufficient for the needs of the next 12 months. The assessment takes into account the ongoing negotiations with existing financing banks and new financiers to finance projects starting phase, as well as the risks and opportunities associated with ongoing and starting projects. The Company has identified ways to improve cash flow in the short term, such as the implementation of housing projects as construction contracts for investors, the sale of some assets, and

changes in operating practices. Financial risks are described in more detail in the note "Financial risk management".

IMPACTS OF THE COVID-19 PANDEMIC

In spite of the exceptional circumstances caused by the pandemic, the company's business has continued to perform relatively well. The implementation of some of the company's projects has been slightly delayed due to coronavirus infections. Project-related uncertainties have increased due to the coronavirus crisis, but demand for housing construction has remained good in spite of this. The ongoing coronavirus pandemic is still causing uncertainty in the market, which may cause demand for construction to weaken, and sales prices may have to be lowered to promote sales.

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 2021. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and

corporate legislation, complementing the IFRS regulations. The consolidated financial statements are prepared on historical cost basis except for financial assets at fair value through profit or loss. The financial information is presented in thousands of euros.

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.

Assets held for sale and discontinued operations

Non-current assets and assets and liabilities related to discontinued operations are classified as held for sale if their carrying amounts are expected to be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale presupposes that the sale is highly probable, the asset in its current condition is

immediately available for sale on normal terms, management is committed to the sale of the asset and the sale is expected to take place within one year of the classification. Before an asset or a disposal group is classified as held for sale, its carrying amounts are determined in accordance with the applicable IFRS standards. From the date of classification, non-current assets held for sale shall be measured at the lower of carrying amount and fair value less costs to sell. Depreciation is no longer recognized for property, plant and equipment and intangible assets held for sale. The company has no assets classified as held for sale at the balance sheet date.

A discontinued operation is a part of the Group that has been disposed of or classified as held for sale and that meets the criteria for classification as a discontinued operation in accordance with IFRS 5. The result of discontinued operations is presented as a separate item in the consolidated income statement and the figures for the comparison period have been adjusted accordingly. Assets held for sale, disposal groups, items recognized in other comprehensive income related to assets held for sale and liabilities included in disposal groups are presented in the balance sheet separately from other items.

The Swedish operations have been classified as discontinued operations in these financial statements. Continuing and discontinued operations are presented separately in the consolidated income statement. Discontinued operations are presented as a separate item and the comparative information has been restated accordingly. Internal transactions between discontinued operations have been eliminated from the figures. The discontinued operation is described in the note "Discontinued operations".

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. The amortisation period for machinery and equipment is 3–5 years.

Goodwill

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

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

Other intangible assets

Customer relations

Customer relationships are intangible assets arising from a business combination. Customer relationships based on agreements acquired in a business combination are recognized at fair value at the time of acquisition. They have a finite useful life and are therefore carried at cost

less accumulated depreciation. The amortization period for customer relationships was 5 years. The asset has been depreciated during the financial year.

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 mostly 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.

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.

Joint arrangements

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

Inventories

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

Inventories are comprised of sites under construction, completed sites intended for sale and raw materials and

supplies used in the operations. The acquisition cost of these comprises the value of the plot and other raw materials, borrowing costs, planning costs, direct costs of labour and other direct and indirect costs relating to the construction projects.

Financial assets and liabilities

Financial assets

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

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

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

Financial assets recognised at amortised cost

Financial assets recognised at amortised cost include financial assets under the held-to-collect business model, which are held until the due date in order to collect

contractual cash flows. The cash flows of these items consist solely of principal and interest on the principal outstanding.

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

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

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to a known amount



of cash and subject to an insignificant risk of changes in value. Items included in cash and cash equivalents have original maturities of three months or less.

Financial liabilities

Financial liabilities are recognised initially at fair value. Transaction costs are included in the original carrying amount of financial liabilities at periodised acquisition cost. Financial liabilities are subsequently carried at amortised cost using the effective interest method. Financial liabilities are classified as non-current or current. The latter group comprises all those financial liabilities for which the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Derivatives

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

Capitalisation of borrowing costs

Borrowing costs directly arising as a result of the acquisition, construction or manufacturing of a qualifying asset are capitalised as part of the acquisition cost of the asset in question. A qualifying asset is one that takes a substantial period of time to complete for its intended purpose. Capitalisation commences when the company first incurs expenditures for a qualifying asset giving rise to borrowing costs, and when it undertakes activities that are necessary for preparation of the asset for its intended use or for sale. Capitalisation ceases when all activities

necessary to complete the asset for its intended use or sale have been carried out. In developer contracting housing projects, borrowing costs are capitalised in construction stage and recorded above operating profit as project cost upon delivery.

Provisions

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

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

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

A contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is only confirmed by one or more uncertain future events not wholly within the control of the group or when there is

an obligation that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements. At the balance sheet date, the Group had no contingent liabilities.

Leases

Group as lessee

The Group has long-term of land leases related to developer-contracted construction, which often have a lease period of up to 50-70 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 right-of-use assets and liabilities.

Right-of-use inventories are presented in the balance sheet in inventories in the same way as inventories held by the Group. At the time of handing over the developer-contracted project, the management and ownership of the land lease will also be transferred to the customer, and the company will currently derecognise the fixed assets from inventories and lease liabilities without income statement entries.

Right-of-use in machinery and equipment are mostly leases for office premises and small machinery and equipment. When measuring a lease liability, the present value of future payments takes into account any incentives, variable rents (indexes or based on price or other variable), residual value of the asset item, the realisation price of any purchase

options or sanctions imposed due to termination of the lease. In fixed-term agreements, the lease period is the non-cancellable lease period and the probability of exercising an extension. The discount rate of a lease is the interest rate implicit in the lease or, if said rate cannot be readily determined, the incremental borrowing rate. Interest expenses on leases are presented in financial expenses. Leases are also recognised as assets and depreciated on a straight-line basis over the lease period. Leases with a lease period of less than one year or value of less than EUR 5,000 are expensed during the lease period.

Group as lessor

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

Revenue recognition principles

Revenue recognition principles related to construction projects

Construction projects are recognised as revenue over time according to progress if the customer controls the asset. If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time.

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.

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 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.

Sales recognised as revenue upon delivery

If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time. The sale of property construction projects is recognised at the moment when control of the property is transferred to the buyer. For apartments sold in the construction phase, control is deemed to have transferred upon completion, and for completed apartments, upon sale.

The Group has been able to take out so-called RS loans for developer contracting projects. RS loans are provided by credit institutions under certain terms and condition for designated housing construction sites. RS loans are construction-time loans for housing company shares for sale, and in such projects the total purchase prices obtained from the sale of housing units, i.e. transaction prices, include both the purchase prices paid by customers and the RS loan shares for apartments. The RS loan shares for the apartments will be transferred from the company to the transaction price received from the customer in connection with the sale of the housing share. RS loans raised for developer contracting projects in progress are presented in the balance sheet as interest-bearing liabilities for unsold apartments (in the breakdown "Debts on shares in unsold housing and real estate company shares in progress" in the note "Financial liabilities") and for sold apartments in advances received (note "Trade payables and other non-

interest-bearing liabilities”, in the breakdown “Advances received, Debts on shares in unsold housing and real estate company shares in progress). Advances received also show the purchase prices paid by customers. Advances received upon completion of the project are recognized as income in revenue. Net sales from developer contracting housing projects is recognized as income upon delivery when the control of housing share is transferred to the customer.

Revenue recognition principles related to other incomes

Sales recognised as rental income

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

Recognition of interest and dividend income

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

Operating profit

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

losses and other operating expenses. All other items of income statement are presented below operating profit.

Employee benefits

Pension obligations

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

Share-based payments

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

Related party transactions

The Group’s related parties include Group companies, members of the Board of Directors and the Group’s

top managements as well as entities on which related parties, or their family have influence through ownership or management. Related parties also include associated companies and joint ventures. Transactions with related parties are disclosed in Note “Related party transactions”.

Income taxes

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

Changes in deferred taxes are calculated on temporary differences between the carrying amount and taxable value on the basis of the tax rate in force at the balance sheet date or confirmed tax rates entering into force subsequently. Deferred tax assets have been recognised to the extent that it is probable that taxable income against which the temporary difference can be applied will materialise in the future. The most significant temporary differences arise from difference between book value and tax value in 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, impairment testing and deferred tax assets. 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".

Deferred tax assets

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized. The Group continuously assesses its future profitability and, based on this, regularly assesses the usability of deferred tax assets.

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 2021 or thereafter.

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

The following new and amended standards for the preparation of consolidated financial statements are effective for financial periods starting on or after 1 January 2022:

- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IAS 12 Income Taxes
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

Following the amendment to IAS 37, when an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs.

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



Notes to the Consolidated Financial Statements

1. OPERATING SEGMENTS

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

Result	2021	2020
Net sales	435 881	544 651
Other operating income	497	970
Operating expenses	-453 459	-537 933
Depreciation and amortisation	-6 963	-7 605
Operating result	-24 044	83
Financial income	105	271
Financial expenses	-2 932	-4 327
Segment's profit/loss before income taxes	-26 872	-3 972
Assets		
Segment's assets	366 984	383 799
Investments	1 222	4 268
Liabilities		
Segment's liabilities	276 046	260 163

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 67.4 million in 2021 (EUR 68.1 million in 2020), corresponding to approx. 15% (12%) of the segment's net sales. In 2021, the share of net sales of the largest individual customer was 8.6% (4% in 2020).

2. DISCONTINUED OPERATIONS

Lehto announced on 31 Dec, 2021 that it discontinues business in Sweden. Swedish operations belong to Building Services operating segment. The reason for termination is the company's need to focus on competitiveness in Finland and the low volume of Swedish business. During years 2017-2020 Lehto has executed two construction projects in Sweden and developed residential projects. During years 2020-2021 Lehto has focused on developing a factory-made wooden apartment house concept for Swedish markets and prepared a pilot project. The outputs from the development work can be utilized in wooden apartment house business in Finland. Swedish operations are classified as discontinued operations in this financial statements. Notes to income statement are presented only from continuing operations, comparison year included.

Following the decision to discontinue operations in Sweden, an impairment loss of EUR 1.8 million on intangible assets has been recognized. The Group's balance sheet after impairment includes non-current assets related to discontinued operations of EUR 0.4 million, current assets of EUR 0.8 million, a restructuring provision of EUR 0.6 million and liabilities of EUR 0.1 million.

Result for the financial year from discontinued operations

	2021	2020
Net sales	0	0
Expenses	-1 976	-2 930
Depreciation and impairment	-1 864	-20
Operating result	-3 839	-2 950
Financial items	-441	74
Taxes	-2 641	-198
Result for the financial year	-6 922	-3 074

Earnings per share, discontinued operations, basic, EUR/share	-0,08	-0,04
Earnings per share, discontinued operations, diluted, EUR/share	-0,08	-0,04

Cash flow from discontinued operations

	2021	2020
Net cash from operating activities	18	365
Net cash from investments	0	-15
Net cash used in financing activities	0	0
Total	18	350

3. NET SALES

	2021	2020
Revenue recognised over time	333 089	376 741
Revenue recognised upon delivery	102 062	166 918
Rental income	730	993
Total	435 881	544 651

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 24.5 (49.5) million.

4. OTHER OPERATING INCOME

	2021	2020
Rental income	33	38
Grants	10	22
Damages	295	589
Capital gains	33	6
Other income	127	316
Total	497	970

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 equipment and share investments.



5. EMPLOYEE BENEFIT EXPENSES

	2021	2020
Salaries and wages	52 743	52 594
Share-based incentives, to be paid out in shares	129	518
Pension costs– defined contribution plans	9 281	8 050
Other personnel costs	2 186	1 815
Total	64 339	62 977

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

Number of personnel in average during the year, Group

	2021	2020
Salaried employees	560	591
Workers	483	524
Total	1 043	1 115

Number of personnel at the end of the financial year, Group

	2021	2020
Salaried employees	549	560
Workers	493	474
Total	1 042	1 034

6. DEPRECIATION AND IMPAIRMENTS

Depreciation and impairments of property, plant and equipment

	2021	2020
Machinery and equipment		
Machinery and equipment	1 580	2 170
Machinery and equipment, right-of-use asset	131	228
Properties		
Properties in own use	742	742
Business premises, right-of-use asset	1 324	1 635
Inventories, right-of-use asset	1 581	1 131
Other tangible assets	115	114
Total	5 473	6 020

Depreciation and impairments of intangible assets

	2021	2020
Customer relationships	225	300
Other intangible assets	1 248	1 267
Total	1 473	1 567

Depreciation of investment properties

	2021	2020
Buildings and structures	18	19
Total	18	19

Depreciation and impairments, total	6 963	7 605
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7. OTHER OPERATING EXPENSES

	2021	2020
Voluntary personnel expenses	1 937	1 825
Costs related to construction site and office space	3 569	3 059
IT and equipment expenses	3 457	3 020
Travel expenses	2 549	2 679
Product development expenses	364	417
Marketing expenses	2 370	2 822
Administrative services	2 347	2 905
Reduction from expected credit loss	11	22
Other operating expenses	935	2 255
Total	17 540	19 005

<i>Fees paid to auditor:</i>	2021	2020
Audit fees	211	271
Certificates and statements	3	1
Tax services	9	57
Other services	9	13
<i>Total</i>	<i>232</i>	<i>342</i>

8. FINANCIAL INCOME AND EXPENSES

Financial income	2021	2020
Dividend income	0	0
Other financial income	105	271
Total	105	271

Financial expenses	2021	2020
Interest expenses	1 904	3 694
Interest expenses from lease liabilities	1 701	1 228
Capitalised interest expenses	-1 643	-1 730
Other financial expenses	970	1 135
Total	2 932	4 327
Financial income and expenses, total	-2 827	-4 055

9. INCOME TAXES

	2021	2020
Current income tax	4	384
Change deferred tax assets	-1 067	980
Change deferred tax liabilities	-117	-215
Total	-1 179	1 150

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country

	2021	2020
Tax rate	20,0 %	20,0 %
Result from continuing operations before taxes	-26 872	-3 972
Taxes calculated at the tax rate of the domicile country	-5 374	-794
Tax-exempt income	-1 087	-0
Non-deductible expenses	227	395
Use of previously unrecognized tax losses	-488	
Unrecognized deferred tax asset from losses	5 544	1 550
Total	-1 179	1 150



10. SHARE-BASED KEY FIGURES

	2021	2020
Result for the financial year attributable to equity holders of the parent company	-32 615	-8 196
Issue-adjusted average number of outstanding shares during the period, basic	87 142 297	71 012 014
Issue-adjusted average number of outstanding shares during the period, diluted	87 447 100	71 330 955
Earnings per share, basic, EUR/share	-0,37	-0,12
Earnings per share, diluted, EUR/share ¹⁾	-0,37	-0,12
Earnings per share, continuing operations, basic, EUR/share	-0,29	-0,07
Earnings per share, continuing operations, diluted, EUR/share ¹⁾	-0,29	-0,07
Earnings per share, discontinued operations, basic, EUR/share	-0,08	-0,04
Earnings per share, discontinued operations, diluted, EUR/share ¹⁾	-0,08	-0,04

¹⁾ The calculation of diluted earnings per share does not take into account potential ordinary shares whose conversion to ordinary shares would increase earnings per share or decrease loss per share.

Issue-adjusted number of outstanding shares at the end of the year	87 159 445	87 089 901
Equity / share	1,04	1,42
Dividend / share	— ²⁾	-

²⁾ Dividend proposal

11. GOODWILL

Cash-generating unit: Building Services

	2021	2020
Goodwill	4 624	4 624

For the purposes of goodwill impairment testing, recoverable cash flows have been determined based on value-in-use calculations. A cash generating unit is the acquired business entity to which goodwill relates. The cash flows of cash generating units for the next

five years have been discounted to their present value and the discount rate used is the weighted average cost of capital (WACC) determined for Lehto. Cash flows after five years – the residual value – have not been taken into consideration in the calculations, as they are impacted by actions taken after the goodwill was recognised and which change the performance of the cash generating unit. Cash flow forecasts are based on the budgets for 2022 approved by the company's management and the strategic forecasts for 2023-2026.

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 2021 financial statements is 8.23% (10.55% in 2020).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2020. No material changes with an impact on expected cash flow from operations has occurred in the business environment compared with the previous financial year. Impairment testing on 31 December 2021 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. The share of goodwill in equity is very moderate, 5.1%.



12. OTHER INTANGIBLE ASSETS

Other intangible assets 2021	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2021	4 282	8 100	12 382
Increases		726	726
Acquisition cost at 31 Dec. 2021	4 282	8 826	13 108
Accumulated depreciation and amortisation at 1 Jan. 2021	-4 057	-3 779	-7 835
Depreciation, continuing operations		-1 248	-1 473
Depreciation and impairment, discontinued operations		-1 810	-1 810
Accumulated depreciation and amortisation at 31 Dec. 2021	-4 282	-6 837	-11 118
Carrying amount at 1 Jan. 2021	225	4 322	4 547
Carrying amount at 31 Dec. 2021	0	1 989	1 989

Other intangible assets 2020	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2020	4 282	6 679	10 961
Increases		1 421	1 421
Acquisition cost at 31 Dec. 2020	4 282	8 100	12 382
Accumulated depreciation and amortisation at 1 Jan. 2020	-3 457	-2 508	-6 264
Depreciation, continuing operations		-1 267	-1 567
Depreciation and impairment, discontinued operations		-4	-4
Accumulated depreciation and amortisation at 31 Dec. 2020	-4 057	-3 779	-7 835
Carrying amount at 1 Jan. 2020	525	4 172	4 697
Carrying amount at 31 Dec. 2020	225	4 322	4 547

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2021	Right-of-use asset	Properties in own use	Machinery and equipment and other tangible assets	Total
Acquisition cost at 1 Jan. 2021	8 984	14 184	15 898	39 066
Increases	45		451	496
Decreases	-69			-69
Acquisition cost at 31 Dec. 2021	8 961	14 184	16 348	39 493
Accumulated depreciation and amortisation at 1 Jan. 2021	-3 774	-2 610	-10 010	-16 394
Depreciation, continuing operations	-1 455	-742	-1 694	-3 892
Depreciation and impairment, discontinued operations			-53	-53
Accumulated depreciation and amortisation at 31 Dec. 2021	-5 229	-3 352	-11 758	-20 339
Carrying amount at 1 Jan. 2021	5 211	11 574	5 887	22 672
Carrying amount at 31 Dec. 2021	3 732	10 832	4 590	19 154

Property, plant and equipment 2020	Right-of-use asset	Properties in own use	Machinery and equipment and other tangible assets	Total
Acquisition cost at 1 Jan. 2020	8 547	14 187	15 332	38 066
Increases	2 284	-3	565	2 847
Decreases	-1 847			-1 847
Acquisition cost at 31 Dec. 2020	8 984	14 184	15 898	39 066
Accumulated depreciation and amortisation at 1 Jan. 2020	-1 911	-1 867	-7 711	-11 489
Depreciation, continuing operations	-1 862	-742	-2 284	-4 888
Depreciation and impairment, discontinued operations			-16	-16
Accumulated depreciation and amortisation at 31 Dec. 2020	-3 774	-2 610	-10 010	-16 394
Carrying amount at 1 Jan. 2020		12 319	7 622	26 577
Carrying amount at 31 Dec. 2020	5 211	11 574	5 887	22 672



14. INVESTMENT PROPERTIES

Investment properties 2021	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2021	202	809	1 011
Acquisition cost at 31 Dec. 2021	202	809	1 011
Accumulated depreciation and amortisation at 1 Jan. 2021		-300	-300
Depreciation		-18	-18
Accumulated depreciation and amortisation at 31 Dec. 2021		-318	-318
Carrying amount at 1 Jan. 2021	202	509	711
Carrying amount at 31 Dec. 2021	202	491	693

Investment properties 2020	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2020	202	809	1 011
Acquisition cost at 31 Dec. 2020	202	809	1 011
Accumulated depreciation and amortisation at 1 Jan. 2020		-282	-282
Depreciation		-19	-19
Accumulated depreciation and amortisation at 31 Dec. 2020		-300	-300
Carrying amount at 1 Jan. 2020	202	554	757
Carrying amount at 31 Dec. 2020	202	509	711

Net rental income	2021	2020
Rental income from investment properties	90	83
Direct maintenance costs for investment properties	32	27
	59	56

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 2021	Fair value 2020
Business property	Acquisition cost	3	580	598
Land area	Acquisition cost	3	202	202
			782	800

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.

15. OTHER FINANCIAL ASSETS

Financial assets recognised through profit and loss	2021	2020
Financial assets recognised through profit and loss at 1 Jan.	771	775
Decreases		-4
Financial assets recognised through profit and loss 31 Dec.	771	771

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

	2021	2020
Non-current project related bank deposits	7 732	12 922
Non-current loan receivables	390	1 555
Other non-current receivables	56	163
Total	8 177	14 640

17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets 2021	1 Jan 2021	Recognised in income statement	31 Dec 2021
Fixed assets internal margin	50	-13	37
Confirmed losses	12 124	-0	12 123
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	3 060	1 078	4 138
Adjustment from discontinued operations		-2 670	-2 670
Other temporary differences	33	2	35
Exchange rate difference in opening balance	134	-0	133
Total	15 401	-1 604	13 797

Deferred tax liabilities 2021	1 Jan 2021	Recognised in income statement	31 Dec 2021
Temporary differences from capitalisation of financial expenses	24	-17	7
Depreciation difference with taxation	260	-46	214
Other temporary differences	53	-53	0
Total	337	-117	221

On Dec 31, 2021 the Group had EUR 49.4 (10.2) million confirmed losses for which no deferred tax receivables have been recognized because the Group considers it possible that it will not have taxable income before the losses expire. Of these losses, EUR 32.0 (7.6) million are allocated to Finland and EUR 17.4 (2.6) million to Sweden. These losses will expire from 2030 onwards.

Deferred tax assets 2020	1 Jan 2020	Recognised in income statement	31 Dec 2020
Fixed assets internal margin	64	-13	50
Tax losses carried forward	12 522	-398	12 124
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	3 831	-771	3 060
Other temporary differences	29	4	33
Adjustment from discontinued operations		198	
Exchange rate difference in opening balance	28		134
Total	16 473	-980	15 401

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

18. INVENTORIES

	2021	2020
Materials and supplies	4 501	2 413
Work in progress	93 930	84 770
Right-of-use asset	86 052	27 773
Completed products	7 328	18 654
Inventory shares	153	49
Other inventories	2 914	2 030
Total	194 878	135 688

Right-of-use asset in inventories is long-term land leases related to construction projects that are under the control of the company during the design and construction period, i.e. often only a few years, but need to be classified as fixed assets and liabilities in accordance with IFRS 16. The liability corresponding to the right-of-use assets is presented in the notes under "Financial liabilities".



19. TRADE AND OTHER RECEIVABLES

	2021	2020
Trade receivables	51 606	46 276
Loan receivables	651	1 022
Security deposits	20	10 067
Other receivables	403	1 230
Receivables from customers for constructing contracts	36 584	20 465
Adjusting entries for assets	867	632
Total	90 131	79 691

Ageing analysis of trade receivables	2021	2020
Not yet due	42 200	38 479
Reduction from expected credit loss	-95	-84
Due for		
less than 30 days	6 680	3 801
30–60 days	102	577
61–90 days		157
more than 90 days	2 719	3 346
Total	51 606	46 276

Trade receivables not yet due are significant, as the purchase prices of developer-contracted housing shares are invoiced from customers at the time of purchase and fall due as the construction phase progresses. However, the receivables do not involve significant accumulations of credit risk, as the housing apartments will not be handed over to the customer until all trade receivables have been paid. The carrying amount of receivables corresponds to their fair value.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
Financial assets at fair value through profit or loss	316	314
Total	316	314

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 level 1 and it is determined using the buying rate of the counterparty at the end of the reporting period.

21. CASH AND CASH EQUIVALENTS

	2021	2020
Cash in hand and at banks	32 453	104 741
Total	32 453	104 741

22. EQUITY

	Number of shares	Share capital	SVOP - Reserve for invested unrestricted equity	Total
31 December 2019	58 309 443	100	69 155	69 255
Directed share issue on 18 Dec 2020	29 029 967		19 539	19 539
31 December 2020	87 339 410	100	88 695	88 795
of which company holds	249 509			
Outstanding shares on 31 December 2020	87 089 901			
31 December 2021	87 339 410	100	88 695	88 795
of which company holds	179 965			
Outstanding shares on 31 December 2021	87 159 445			

SHARES AND SHARE CAPITAL

At balance sheet date, the number of shares totalled 87,339,410, of which the company holds 179,965 shares. The share capital is EUR 100,000. The company has one series of shares, and all shares are of the same class. Each share entitles its holder to one vote in the General Meeting of Shareholders and to an equal amount of dividend.

Transfer of own shares

In March 2021, with the authorization given by the Annual General Meeting held on April 14, 2020, the company carried out a directed share issue without consideration, 69,544 shares, to implement the share-based incentive plan.

Invested non-restricted equity reserve

The invested non-restricted equity reserve contains equity investments and that part of the share subscription price that has not specifically been allocated to share capital. The funds received from the IPO, less total fees and expenses for the IOP, have been recorded to invested non-restricted equity reserve.

Share-based compensations

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

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

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2019-2021 correspond to the value of an approximate maximum total of 2,000,000 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 2021 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2018 of the long-term incentive plan adopted by Lehto in 2018. In the share issue 69,544 Lehto Group Plc's shares owned by the company were issued free of consideration to group key employees in accordance with the terms and conditions of the plan. The Issue Shares corresponded to approximately 0.08 per cent of Lehto's shares and votes prior to the share issue. For the earning period 2019, the performance bonus for members of the share plan was EUR 880,000, which adjusted with share issue ratio due share issue in December 2020 converts into 121,054 shares. For the earning period 2020 the performance

bonus for members of the share plan was EUR 326,000, converted to issued-adjusted shares 141,164.



Arrangement	Earning period		
	2019	2020	2021
Nature of arrangement	Shares	Shares	Shares
Date of issue	12 Feb 2019	20 Feb 2020	18 Feb 2021
Number of instruments issued (issued-adjusted)	121,054	138,776	-
Share price on grant date (issued-adjusted)	3.57	1.89	1.59
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 2019, 2020 and 2021 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2021 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 2021.

23. PROVISIONS

Provisions 2021	Guarantee provisions	Onerous projects	Restructuring provision	Total
1 Jan. 2021	10 110	2 411		12 522
Increases	7 939	8 672	638	17 249
Decreases	-7 742			-7 742
31 Dec. 2021	10 307	11 083	638	22 028

Provisions 2020	Guarantee provisions	Onerous projects		Total
1 Jan. 2020	8 190	1 194		9 384
Increases	5 894	1 217		7 112
Decreases	-3 974			-3 974
31 Dec. 2020	10 110	2 411		12 522

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. Restructuring provision includes after-costs of the discontinued Swedish operations.



24. FINANCIAL LIABILITIES

	2021	2020
Non-current loans from financial institutions	3 033	4 739
Non-current instalment debts	99	106
VAT loan arrangement with the Tax Administration	0	5 130
Non-current lease liabilities	88 170	31 509
Total	91 302	41 484
	2021	2020
Current loans from financial institutions	30 067	44 818
Current instalment debts	8	267
VAT loan arrangement with the Tax Administration	5 255	12 133
Debts on shares in unsold housing and real estate company shares in progress	4 647	0
Debts on shares in unsold housing and real estate company shares completed	2 724	13 185
Current lease liabilities	2 275	1 787
Total	44 976	72 189
Financial liabilities, total	136 278	113 673

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

Financial liabilities 2021	Non-current financial liabilities	Current financial liabilities	Total
1.1.2021	41 484	72 189	113 673
<i>Changes during the period:</i>			
Cash flows	-9 212	-21 888	-31 100
Non-cash flows	59 029	488	59 518
Unsold housing and real estate company shares completed		-5 813	-5 813
31 Dec. 2021	91 302	44 976	136 278

Financial liabilities 2020	Non-current financial liabilities	Current financial liabilities	Total
1.1.2020	50 586	138 579	189 165
<i>Changes during the period:</i>			
Cash flows	1 507	-46 374	-44 867
Non-cash flows	-10 609	-360	-10 969
Unsold housing and real estate company shares completed		-19 655	-19 655
31 Dec. 2020	41 484	72 189	113 673

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

Non-current non-interest-bearing liabilities	2021	2020
Estimated purchase prices from inventory shares	115	115
Total	115	115

Current non-interest-bearing liabilities	2021	2020
Advances received		
From projects where revenue recognised over time	12 240	12 476
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estate shares in progress	18 153	51 644
Debts on shares in sold housing and real estate shares in progress	1 919	
Other advances received	86	278
Trade payables	46 040	36 051
Other liabilities		
Liabilities paid to the Tax Administration	9 762	11 046
Other liabilities	5 119	2 534
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	10 928	10 249
Income tax debt	3	50
Other adjusting entries for liabilities	13 154	9 188
Total	117 405	133 516



26. FINANCIAL RISK MANAGEMENT

The Group's main sources of funding consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has some revolving credit limits. At the end of 2021, the cash and cash equivalents amounted to EUR 32.5 million (EUR 104.7 million 31 December 2020) and financial assets at fair value through profit or loss EUR 0.3 (0.3) million. The amount of credit limits at the end of 2021 was EUR 25.1 million, which all was in use.

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

Revolving Credit Facility

Lehto has a Revolving Credit Facility (RCF) with a bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank AB. The RCF is in force until 31 December 2022 and on the balance sheet date EUR 25.1 million of the facility was in use. No further funds can be withdrawn from the RCF. According to the agreement, some of the credit will be paid back before the end of the contractual period and part of the credit will fall due at the end of the agreement. The agreement includes both partial guarantees and financial covenants on EBITDA, interest-bearing net debt and net gearing as well as other covenants. These covenants may also impact the distribution of dividends while the RCF is in force.

At the end of the financial year, the covenant terms of the RCF were not met, and Lehto had permission from the bank syndicate to temporarily exceed the covenant limits set in the agreement. On the closing date, Lehto was in negotiations with the financing banks to refinance the RCF. The company has agreed with the banks that 11 March 2022 is the deadline by which the company and the banks will seek to create a financing solution that will enable the company to implement its strategy.

Net liabilities	2021	2020
Interest-bearing liabilities	45 832	80 377
Cash and cash equivalents and interest-bearing receivables	-32 769	-105 054
Net liabilities without IFRS 16 liabilities	13 063	-24 677
Lease liabilities	90 455	33 296
Net liabilities	103 509	8 619
Equity, total, EUR 1,000	90 938	123 636
Gearing	100,6%	40,0%
Net gearing ratio	113,8%	7,0%

Loan facility with the Tax Administration

In July 2020, Lehto made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 21.0 million. The VAT payment arrangement was made when the Tax Administration offered companies the possibility to prepare for any potential impacts of the coronavirus pandemic by loaning back VAT paid in spring 2020. The repayment period under the payment arrangement is 22 months and the first instalment was paid in September 2020. The interest rate on the payment arrangement is 2.5%. At the end of the financial year, the remaining commitments under the payment arrangement amounted to EUR 5.3 million.

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 0.1 million (EUR 0.6 million in 31 December 2020) and receivables denominated in foreign currency totalling EUR 0.4 million on 31 December 2021 (EUR 1.6 million in 2020). Most of the foreign currency exposure came from Swedish Crown.



Interest rate risk

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

Sensitivity analysis for loans with floating rates

	2021		2020	
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	-25	25	-39	39

Credit risk

The Group's most significant credit risk is related to trade receivables from the customers. However, trade receivables do not involve significant accumulations of credit risk, as the housing apartments will not be handed over to the customer until all trade receivables have been paid. The aging distribution of trade receivables and the solvency of largest customers is monitored on group level and by the Group companies. The credit risk is also managed by granting customers regular payment terms only. Payment terms applied in the Group currently range from 7 days to 45 days and the most typical payment term is 30 days. Furthermore, for individual projects a longer payment term can be agreed on, where the payment is made as a one-off payment at the end of the project.

Liquidity risk

The liquidity risk is managed through maintaining an adequate infrastructure for planning and monitoring of funding and cash management. To secure immediate liquidity the Group has credit limits. The Group didn't have un-used credit limits at the end of financial year ends.

Analysis of debt maturity

31 Dec 2021	Less than 1 year	1-5 years	More than 5 years	Total
Financial liabilities	43 213	3 149		46 423
Lease liabilities	4 064	13 531	126 316	143 911
Trade payables and other non-interest-bearing liabilities	60 921	115		61 036

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

The majority of lease liabilities relate to long-term (up to 50-70 years) land lease agreements related to construction projects presented in inventories, which are to be classified as right-of-use assets and liabilities under IFRS 16 for the entire term of the agreement, even if they are managed by the company usually only for few years.

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.



27. LEASES

Group as lessee

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

Right-of-use assets and lease liabilities 2021	Inventories	Property, plant and equipment	Lease liabilities
1 Jan. 2021	28 009	5 211	33 296
Increases	93 590	45	92 985
Decreases	-33 397	-69	-33 467
Depreciation / instalments	-1 581	-1 455	-2 368
31 Dec. 2021	86 620	3 732	90 445

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

Interest expenses related to lease liabilities in 2021 amounted to EUR 1,701 thousand (EUR 1,222 thousand in 2020). Interest expenses on lease liabilities are presented in financial expenses in the notes under "Financial income and expenses".

EUR 1,166 (1,856) thousand was recognised as expenses from low-value and short leases during the financial year. In addition to low-value IT machinery and equipment rents, these include short-term (less than one year) rents for tool, machine and site facilities related to the construction industry. The total cash flow leases amounted to EUR 2,370 (2,507) thousand and from land leases to EUR 3,802 (3,117) thousand.

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

28. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2021	2020
Loans from financial institutions	4 671	49 454
Debts on shares in unsold housing company shares	7 371	13 185
Instalment debts		259
Total	12 043	62 898

Guarantees	2021	2020
Real-estate mortgages	9 380	9 380
Pledges	7 738	22 938
Absolute guarantees	299	299
Total	17 417	32 618

Contract guarantees	2021	2020
Production guarantees	61 802	48 069
Warranty guarantees	17 954	22 508
RS guarantees	21 880	20 944
Payment guarantees	1 629	2 011
Total	103 266	93 531

Liability to adjust value added tax (VAT) on property investments	2021	2020
Liability to adjust VAT	1 899	2 257



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.

29. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

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

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

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



31. RELATED PARTY TRANSACTIONS

The Group's related parties include Group companies, members of the Board of Director and the Group's top management as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures. The Group didn't have any transactions with associated companies and joint ventures.

Transactions with related parties

	Sales 2021	Sales 2020	Purchases 2021	Purchases 2020
Key personnel and their controlled entities	36 693	75 538	7 396	6 201
Total	36 693	75 538	7 396	6 201

	Receivables 31 Dec. 2021	Receivables 31 Dec. 2020	Liabilities 31 Dec. 2021	Liabilities 31 Dec. 2020
Key personnel and their controlled entities	5 098	2 301	794	641
Total	5 098	2 301	794	641

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

The most significant part of the sales to related parties consists of the sale of apartments and business premises to NREP Oy or companies owned by it or funds managed by it. Mikko Räsänen, a former member of Lehto's Board of Directors, and Jani Nokkanen, a current member of the Board, are members of the Board in NREP Oy. Sales to NREP Oy or its controlled and influential entity totalled approximately EUR 36 million.

Purchases from related parties mainly consist of the rental of work machines and equipment from Lehto Invest Oy, a company controlled by the previous CEO and current chairman of the

Board Hannu Lehto. These purchases amounted to EUR 3.8 million. Lehto also buys design services from Arkkitehtitoimisto Jorma Paloranta Oy, which is CFO Veli-Pekka Paloranta's influential community. The amount of these purchases was EUR 72 thousand. In addition, Lehto purchases building technology design and maintenance services from Elvak Oy, which is a company controlled by the previous CEO and current chairman of the Board Hannu Lehto's son. The amount of these purchases was EUR 3.3 million.

Management salaries and remuneration	2021	2020
Chief Executive Officer, CEO		
Juuso Hietanen (since May 1, 2021)	263	
Hannu Lehto (until April 30, 2021)	59	115
Other management team	1 063	1 160
Total	1 385	1 275

No share bonuses (EUR 7 thousand in 2020) were paid to the CEO and other management team in 2021.

Members of the Board of Directors	2021	2020
Hannu Lehto, chairman (since May 28, 2021)	65	-
Seppo Laine (chairman until May 28, 2021)	51	76
Anne Korkiakoski	43	41
Helena Säteri (since April 14, 2020)	41	35
Raimo Lehtiö (since April 14, 2020)	41	35
Jani Nokkanen (since May 28, 2021)	32	-
Mikko Räsänen (until May 28, 2021)	10	40
Martti Karppinen (until April 14, 2020)	-	8
Pertti Korhonen (until April 14, 2020)	-	4
Total	282	240



Income statement for parent company, FAS

	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020
Net sales	9 253	9 266
Other operating income	0	17
Personnel expenses		
Salaries and fees	-3 860	-3 614
Personnel expenses		
Pension costs	-622	-518
Indirect employee costs	-145	-109
Depreciation according to plan	-1 018	-1 123
Other operating expenses	-4 450	-4 583
Operating result	-841	-665
Financial income and expenses		
Income from holdings in Group companies	25	
Interest and other financial income		
From Group companies	513	462
From others	16	173
Amortisation from other investments held as non-current assets	-17 346	
Interest and other financial expenses		
To Group companies	-4	-7
To others	-1 679	-3 380
<i>Financial income and expenses, total</i>	<i>-18 473</i>	<i>-2 751</i>
Result before appropriations and taxes	-19 315	-3 416
Appropriations		
Group contribution		1 451
Result before taxes	-19 315	-1 965
Taxes		
Result for the financial year	-19 315	-1 965



Balance Sheet for the parent company, FAS

ASSETS	31 Dec 2021	31 Dec 2020
Non-current assets		
Intangible assets	1 510	2 025
Machinery and equipment	10	137
Holdings in Group companies	66 303	81 698
Other shares and investments	757	757
Non-current assets, total	68 580	84 617
Current assets		
Inventories	83	83
<i>Non-current receivables</i>		
Receivables from Group companies	685	2 691
Loan receivables	56	163
<i>Current receivables</i>		
Trade receivables	1	8
Receivables from Group companies	28 005	7 772
Loan receivables		252
Other receivables	11	10 011
Adjusting entries for assets	228	183
Financial securities	316	314
Cash and cash equivalents	30 005	103 201
Current assets, total	59 391	124 679
ASSETS TOTAL	127 971	209 296

EQUITY AND LIABILITIES	31 Dec 2021	31 Dec 2020
Equity		
Share capital	100	100
SVOP - Reserve for invested unrestricted equity	91 655	91 655
Retained earnings	-5 091	-3 126
Result for the financial year	-19 315	-1 965
Equity, total	67 350	86 664
Liabilities		
Non-current liabilities		
Other liabilities		78
Non-current liabilities, total		78
Current liabilities		
Loans from financial institutions	25 137	39 000
Trade payables	413	873
Liabilities to Group companies	33 948	81 426
Other liabilities	330	360
Adjusting entries for liabilities	794	894
Current liabilities, total	60 621	122 553
Liabilities, total	60 621	122 632
EQUITY AND LIABILITIES TOTAL	127 971	209 296



Cash Flow Statement for the parent company, FAS

	31 Dec 2021	31 Dec 2020
Cash flow from operating activities		
Result for the financial year	-19 315	-3 416
<i>Adjustments:</i>		
Depreciation according to plan and impairment	1 018	1 123
Non-cash items	17 346	
Financial income and expenses	1 128	2 751
<i>Changes in working capital:</i>		
Change in trade and other receivables	10 109	-9 818
Change in trade and other payables	-315	29
Interest paid and other financial expenses	-1 779	-3 474
Interests received from operations	437	549
Net cash from operating activities	8 629	-12 255
Cash flow from investments		
Investments in intangible and tangible assets	-375	-603
Investments in other investments		-41 196
Repayment of loan receivables	986	1 050
Loans granted	-227	-3 278
Net cash from investments	384	-44 027

	31 Dec 2021	31 Dec 2020
Cash flow from financing		
Loans drawn		340
Loans repaid	-14 055	-15 115
Change in Group financing	-69 603	99 690
Group contribution	1 451	-1 669
Dividends paid		-7
Share issue paid		20 321
Repurchase of own shares		-504
Net cash used in financing activities	-82 207	103 055
Change in cash and cash equivalents (+/-)	-73 194	46 773
Cash and cash equivalents at the beginning of the financial year	103 515	56 742
Cash and cash equivalents at the end of the financial year	30 321	103 515



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.

Net sales by business area	2021	2020
Group internal service charges	9 222	9 144
Other net sales, internal	15	113
Other net sales, external	15	9
Total	9 253	9 266

Fees paid to auditor:	2021	2020
Statutory auditing	64	127
Certificates and statements	2	
Tax services	1	5
Other services	9	13
<i>Total</i>	<i>78</i>	<i>145</i>

Financial income and expenses	2021	2020
Dividend income from Group companies	25	0
Interest income from Group companies	513	462
Interest income from others	16	173
Amortisation from other investments held as non-current assets	-17 346	0
Interest costs on intra-Group liabilities	-4	-7
Interest costs to others	-1 462	-1 971
Other financial expenses	-216	-1 408
Total	-18 473	-2 751

Taxes	2021	2020
Current taxes		0
Total		0

Intangible rights	2021	2020
Acquisition cost at 1 Jan.	1 265	1 256
Increases	0	9
Acquisition cost at 31 Dec.	1 265	1 265
Accumulated depreciation at 1 Jan.	-995	-731
Depreciation and amortisation	-210	-264
Accumulated depreciation at 31 Dec.	-1 204	-995
Book value at 1 Jan.	271	526
Book value at 31 Dec.	61	271



Other long-term expenditure	2021	2020
Acquisition cost at 1 Jan.	3 080	1 722
Increases	143	1 357
Acquisition cost at 31 Dec.	3 223	3 080
Accumulated depreciation at 1 Jan.	-1 325	-738
Depreciation and amortisation	-679	-587
Accumulated depreciation at 31 Dec.	-2 005	-1 325
Book value at 1 Jan.	1 754	984
Book value at 31 Dec.	1 218	1 754

Advanced payments for intangible assets	2021	2020
Acquisition cost at 1 Jan.	0	771
Increases	231	0
Decreases	0	-771
Acquisition cost at 31 Dec.	231	0
Book value at 1 Jan.	0	771
Book value at 31 Dec.	231	0

Machinery and equipment	2021	2020
Acquisition cost at 1 Jan.	1 264	1 256
Increases	1	8
Acquisition cost at 31 Dec.	1 265	1 264
Accumulated depreciation at 1 Jan.	-1 127	-855
Depreciation and amortisation	-129	-272
Accumulated depreciation at 31 Dec.	-1 256	-1 127
Book value at 1 Jan.	136	400
Book value at 31 Dec.	9	136

Other tangible assets	2021	2020
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	2021	2020
Acquisition cost at 1 Jan.	82 550	81 692
Increases	1 951	858
Acquisition cost at 31 Dec.	84 501	82 550
Accumulated amortisation at 1 Jan.	-95	-95
Amortisation	-17 346	0
Accumulated amortisation at 31 Dec.	-17 441	-95
Book value at 1 Jan.	82 454	81 596
Book value at 31 Dec.	67 060	82 454

Non-current receivables from Group companies	2021	2020
Loan receivables	685	2 691
Total	685	2 691



Current receivables from Group companies	2021	2020
Trade receivables	15	179
Loan receivables	24	424
Other receivables	509	1 826
Group limit	27 458	5 343
Total	28 005	7 772

Essential items included in adjusting entries for assets	2021	2020
Other adjusting entries for assets	228	183
Total	228	183

	2021	2020
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	100	100
SVOP - Reserve for invested unrestricted equity	91 655	71 335
Share issue		20 321
Invested non-restricted equity reserve at 31 Dec.	91 655	91 655

Retained earnings at 1 Jan.	-3 126	-2 516
Retained earnings	-1 965	-99
Distribution of dividends		-7
Repurchasing own shares		-504
Retained earnings at 31 Dec.	-5 091	-3 126
Profit/loss for the financial year	-19 315	-1 965
Equity, total	67 350	86 664

Statement of distributable funds	2021	2020
Invested non-restricted equity reserve	91 655	91 655
Retained earnings	-5 091	-3 126
Profit/loss for the financial year	-19 315	-1 965
Total	67 250	86 564

Liabilities to Group companies	2021	2020
Trade payables	11	1
Group limit	33 936	81 425
Total	33 948	81 426

Essential items included in adjusting entries for liabilities	2021	2020
Holiday pay debt with related costs	475	446
Non-wage labour cost debt	205	183
Interest debt	114	265
Total	794	894

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2021	2020
Loans from financial institutions	25 137	39 000
Total	25 137	39 000

Guarantees		
Pledges	32 741	42 741
Production guarantees	3 049	0
Absolute guarantees	214	214
Total	36 004	42 955



Amount of credit limits	2021	2020
Credit limits available	25 149	39 003
Credit limits in use	25 149	39 003
Credit limits outstanding	0	0
Guarantee limits available	105 451	104 490
Guarantee limits in use	98 573	90 688
Guarantee limits outstanding	6 878	13 802
Guarantees given on behalf of other Group companies	2021	2020
Guarantees given and other commitments	10 339	36 174
Leasing agreements not included in balance sheet		
Expiring in 12 months	37	38
Expiring in more than 12 months	31	48
Total	69	87
Lease liabilities		
Construction leases, expiring in 12 months	1 116	907
Construction leases, expiring in more than 12 months	1 593	1 992
Total	2 710	2 899
Average number of company personnel at the end of the financial year	2021	2020
Salaried employees	63	69
Total	63	69

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

Board proposal for the use of the result 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 2021 are EUR 67,249,763.65, of which the result for the financial year is EUR -19,314,695.05.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the 1 January–31 December 2021 financial year.

Signatures to the Annual Report and Financial Statements

Vantaa, 16 February 2022

Hannu Lehto

Chairman of the Board
of Directors

Anne Korkiakoski

Member of the Board
of Directors

Seppo Laine

Member of the Board
of Directors

Raimo Lehtiö

Member of the Board
of Directors

Jani Nokkanen

Member of the Board
of Directors

Helena Säteri

Member of the Board
of Directors

Juuso Hietanen

CEO

The Auditor's Note

A report on the audit performed has been issued today.

Oulu, 16 February 2022

KPMG Oy Ab

Audit firm

Pekka Alatalo

APA



Group key figures

	2021	2020 ¹⁾	2019 ³⁾	2018 ³⁾	2017 ^{3) 4)}
Net sales, EUR million	435.9	544.7	667.7	721.5	597.6
Net sales, change from the previous year %	-20.0%	-18.2%	-7.5%	20.7%	65.2%
Operating result, EUR million	-24.0	0.1	-41.8	37.2	64.6
Operating result, as % of net sales	-5.5 %	0.0%	-6.3%	5.2%	10.8%
Result for the financial year, EUR million	-32.6	-8.2	-35.7	28.7	51.6
Result for the financial year, as % of net sales	-7.5%	-1.5%	-5.4%	4.0%	8.6%
Return on equity (ROE), %	-30.4%	-7.0%	-26.0%	18.3%	38.8%
Return on investments (ROI), %	-10.3%	0.1%	-14.3%	16.0%	40.6%
Equity ratio, %	27.2%	38.7%	29.6%	42.7%	56.2%
Gearing, %	100.6%	40.0%	49.9%	22.5%	11.7%
Net gearing ratio, %	113.8%	7.0%	115.9%	38.5%	-20.6%
Order backlog, EUR million	474.1	426.3	481.8	655.6	538.1
Gross expenditure on assets, EUR million	1.2	2.0	7.7	15.9	4.5
Personnel during the year, average	1,043	1,115	1,454	1,457	1,013
Personnel at Dec 31	1,042	1,034	1,274	1,552	1,184
Equity / share	1.04	1.42	1.59	2.30	2.13
Earnings per share, issued-adjusted, EUR, basic	-0.37	-0.12	-0.51	0.41	0.73
Earnings per share, issued-adjusted, EUR, diluted	-0.37	-0.12	-0.51	0.41	0.73
Average number of shares during the year, issued-adjusted, basic	87,142,297	71,012,014	70,597,352	70,541,661	70,541,661
Average number of shares during the year, issued-adjusted, diluted	87,447,100	71,330,955	70,752,453	70,698,904	70,761,533
Number of shares, issue-adjusted, at the end of the year	87,159,445	87,089,901	70,612,735	70,541,661	70,541,661
Market value of share at Dec 31, EUR million	75.0	117.6	137.0	247.6	737.5
Share turnover, issue-adjusted, shares	68,750,986	45,969,542	54,836,449	51,905,771	19,781,317
Share turnover out of average number of shares, %	78.9%	64.7%	77.7%	73.6%	28.0%
Share prices, issued-adjusted, EUR					
Highest price, EUR	2.31	2.17	4.40	11.71	11.78
Lowest price, EUR	0.72	0.98	1.22	3.32	8.08
Average price, EUR	1.35	1.37	2.20	7.54	10.12
Price at Dec 31, EUR	0.86	1.35	1.94	3.51	10.45
Dividend / share, issue-adjusted, EUR ²⁾	-	-	-	0.20	0.28
Issue-adjusted dividend pay-out ratio, % ²⁾	-	-	-	48.7%	38.4%
Effective dividend yield % ²⁾	-	-	-	5.6%	2.7%
Price / Earnings	-2.30	-11.75	-3.84	8.65	14.33

¹⁾ Restated according to Swedish operations as discontinued operations ²⁾ Year 2021 dividend proposal

³⁾ Share-based key figures are issue-adjusted due share issue in 2020 ⁴⁾ Restated according IFRS 15



Definitions of key figures

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

Alternative performance measures by ESMA

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

Operating result	Result before financial items and taxes
Return on equity (ROE), %	Result for the financial year
	Equity (average)
Return on investments (ROI), %	Result before taxes + Interest and other financial expenses
	Balance sheet total - Non-interest-bearing liabilities (average)
Equity ratio, %	Equity
	Balance sheet total - Advances received

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



Shares and Shareholders

At balance sheet date, the number of shares is 87,339,410. Outstanding number of shares is 87,159,445 and the company held 179,965 treasury shares. The share capital is EUR 100,000. The company has one share class and all shares are of the same class. The company's shares have no par value, and the Articles of Association do not specify the minimum or maximum value of shares or share capital. Each share entitles its holder to one vote and to an equal amount of dividend.

SHAREHOLDERS 31 DECEMBER 2021

	Number of shares	%
Lehto Invest Oy	33,914,760	38.8%
OP-Suomi Pieniyhtiöt	1,351,282	1.5%
Kinnunen Mikko	1,346,454	1.5%
Mevita Invest Oy	1,086,867	1.2%
Saartoala Ari	1,011,839	1.2%
Keskinäinen Työeläkevakuutusyhtiö Elo	711,309	0.8%
OP-Henkivakuutus Oy	593,880	0.7%
Heikkilä Jaakko	560,000	0.6%
Tuuli Markku	530,000	0.6%
Paloranta Veli-Pekka	501,653	0.6%
10 LARGEST SHAREHOLDERS	41,608,044	47.6%
Nominee-registered	2,179,639	2.5%
Other shareholders	43,551,727	49.9%
TOTAL	87,339,410	100.0%

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share- holders	%
1 - 100	201,687	0.2%	4,265	23.6%
101 – 1,000	3,615,438	4.1%	8,316	46.1%
1,001 – 10,000	15,186,231	17.4%	4,756	26.3%
10,001 – 100,000	17,746,304	20.3%	671	3.7%
100,001 – 1,000,000	11,765,920	13.5%	48	0.3%
over 1,000,000	38,823,830	44.5%	5	0.0%
TOTAL	87,339,410	100.0%	18,061	100.0%
where of Nominee-registered	1,311,878	1.5%	9	5.0%

SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share- holders	%
Companies	43,874,944	50.2%	706	3.9%
Financial and insurance institutions	3,712,704	4.3%	18	0.1%
Public sector organizations	738,719	0.9%	3	0.0%
Households	38,116,352	43.6%	17,268	95.6%
Non-profit organizations	85,092	0.1%	21	0.1%
Foreign countries	811,599	0.9%	36	0.2%
TOTAL	87,339,410	100.0%	18,061	100.0%
where of Nominee-registered	1,311,878	1.5%	9	0.1%

Auditor's Report





Auditor's Report 2021

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 2021. 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 7 to the consolidated financial statements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on

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

Key Audit Matters

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

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

Net sales: revenue recognition

(Refer to Accounting principles for the consolidated financial statements and notes 3, 18, 19 and 25 to the consolidated financial statements)

Key audit matters

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

Audit approach to the matters

- We evaluated the internal control over revenue and 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 and note 18 to the consolidated financial statements)

Key audit matters

- The inventory balance comprises 53 % 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.

Group's financing

(Refer to Accounting principles for the consolidated financial statements and note 26 to the consolidated financial statements)

Key audit matters

- As disclosed in note 26, the company has a credit facility agreement, of which EUR 25.1 million was in use on the balance sheet date. At the end of the financial year, the covenant terms of the credit facility agreement were not met, and the company has obtained a waiver from creditors to temporarily exceed the covenant limits set in the agreement. On the date of signing the financial statements the company was in negotiations to refinance the credit facility.
- The financial statements have been prepared on a going concern basis. At the time of publication of the financial statements, the company assesses its working capital to be sufficient to cover its requirements over the next 12 months, considering the ongoing financial negotiations and the 2022 business plan.

Audit approach to the matters

- ♦ We analyzed the business plans and cash flow estimates prepared by the company to be able to assess the sufficiency of financing.
- ♦ As part of our year-end audit procedures, we assessed the accuracy of classification of financial liabilities, and considered the adequacy and appropriateness of the disclosures provided on the financial position in the consolidated financial statements.

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

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

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention

to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting for the financial year ended 31 December 2013 and

our appointment represents a total period of uninterrupted engagement of 9 years. Lehto Group Plc became a public interest entity on 28 April 2016.

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, 16 February 2022

KPMG Oy Ab

Pekka Alatalo

Authorised Public Accountant, KHT

Corporate Governance Statement



Lehto Group Plc



Corporate Governance Statement 2021

Introduction	67
Descriptions concerning corporate governance	67
General Meeting of Shareholders	67
Board of Directors.....	67
Board committees.....	71
Group Management.....	72
Main features of the internal control and risk management systems related to the financial reporting process.....	74
Risk management.....	74
Internal control	75
Internal controls over financial reporting	76
Risk management and internal control roles and responsibilities.....	76
Other information to be provided	78
Insider Administration	78
Related party administration.....	78
Internal auditing.....	78
Auditing	78

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 16 February 2022, the Company’s Board of Directors approved this Corporate Governance Statement (hereinafter “CG Statement”), which was drawn up separately from the report by the Board of Directors. This CG statement will be published on Lehto Group’s website at www.lehto.fi/en.

Descriptions concerning corporate governance

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

GENERAL MEETING OF SHAREHOLDERS

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

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

In accordance with the Company’s Articles of Association, a written notice of a General Meeting of Shareholders shall be given to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the shareholders’ meeting, however, no later than nine (9) days prior to the record date

of the General Meeting of Shareholders. A notice of a General Meeting of Shareholders shall be given by publishing it on the Company’s website or in some other verifiable written form.

BOARD OF DIRECTORS

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

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

Composition and operations of the Board of Directors

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

The Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors, among its other duties, controls and supervises the Company’s operative management, appoints, and discharges the CEO, determines the duties and conditions of employment of the CEO, approves the strategic objectives



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

The Company aims to ensure that its Board of Directors has, as a whole, and taking into account its duties, sufficient and versatile expertise and experience. In the preparation of the proposal of the shareholders' Nomination Committee for the composition of the Board of Directors, particular attention shall be paid to the requirements set by the company's operations and development stage, 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 28 May 2021 consisted of Hannu Lehto, Seppo Laine, Anne Korkiakoski, Helena Säteri, Raimo Lehtiö and Jani Nokkanen. Hannu Lehto has acted as Chairman of the Board of Directors. During the financial year 2021, the Board of Directors had a total of 18 meetings. The average attendance rate of Board members was 100 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
Hannu Lehto ¹	Chairman of the Board of Directors	1963	Construction engineer	No	No
Seppo Laine	Member of the Board of Directors	1953	APA	Yes	Yes
Anne Korkiakoski	Member of the Board of Directors	1964	M.Sc. (Econ.)	Yes	Yes
Helena Säteri	Member of the Board of Directors	1956	M.Sc. (Tech.)	Yes	Yes
Raimo Lehtiö	Member of the Board of Directors	1957	M.Sc. (Tech.), MBA	Yes	Yes
Jani Nokkanen ¹	Member of the Board of Directors	1977	M.Sc. (Econ.)	Yes	Yes
Mikko Räsänen ²	Member of the Board of Directors	1978	M.Sc. (Econ.)	Yes	Yes

¹ A member of the Board of Directors since the Annual General Meeting 28 May 2021.

² A member of the Board of Directors until the end of the Annual General Meeting on 28 May 2021.



BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES 31 DECEMBER 2021

Name	No. of shares held	Shareholding ratio
Hannu Lehto	33 986 064	38,99 %
Seppo Laine	81 829	0.09 %
Anne Korkiakoski	57 247	0.07 %
Helena Säteri	22 625	0.03 %
Raimo Lehtiö	23 455	0.03 %
Jani Nokkanen	8 402	0,01 %
Board of Directors in total	34 179 622	39.22 %

REMUNERATION OF THE MEMBERS OF THE BOARD (INCLUDING REMUNERATION OF AUDIT COMMITTEE) AND ATTENDANCE IN MEETINGS

Name	Remuneration for 2021, paid as shares, EUR	Remuneration for 2021, paid as cash, EUR	Board and Committee meeting remunerations, EUR	Attendance in Board meetings
Hannu Lehto ¹	27 597	24 150	12 800	13/13
Seppo Laine	13 799	22 425	15 100	18/18
Anne Korkiakoski	13 799	17 250	12 150	18/18
Helena Säteri	13 799	17 250	9 750	18/18
Raimo Lehtiö	13 799	17 250	9 750	18/18
Jani Nokkanen ¹	13 799	12 075	6 000	13/13
Mikko Räsänen ²	-	5 175	4 550	5/5
Board of Directors in total	96 590	115 575	70 100	100 %

¹ A member of the Board of Directors since the Annual General Meeting 28 May 2021.

² A member of the Board of Directors until the end of the Annual General Meeting on 28 May 2021.



Presentation of Board members

Hannu Lehto has been a member and the Chairman of the Board of Directors since the Annual General Meeting on 28 May 2021. He has strong experience both from being an entrepreneur in the construction branch and from executive duties in Lehto Group during separate phases. Hannu Lehto is the Company's founding shareholder and has been the Company's CEO from 2008 to 2013 and from 2014 to May 2021. Furthermore, he has previously been a member of the Board of Directors and the Chairman of the Board of Directors. Hannu Lehto has a strong influence on the Company's and its subsidiaries success for over 35 years.

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

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

Anne Korkiakoski has been a member of the Board of Directors since 2019. She is an expert in marketing and

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

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

Raimo Lehtiö has been a member of the Board of Directors since 2020. Lehtiö is a Master of Science in Technology (Industrial Engineering and Management) and an MBA, graduated from the Helsinki University of Technology. During his career Mr. Lehtiö has acted in directorial positions in groups such as ABB and Scania and his latest position has been a CEO of Scania South Africa (Pty) Ltd.

Jani Nokkanen has been a member of the Board of Directors since Annual General Meeting on 28 May 2021. Currently Nokkanen is working as the CIO and Partner of NREP where he has worked since 2008 in different key roles of development and financing. Before NREP he worked in management consulting and strategy related roles.

The memberships of the Board of Directors that ended during 2021

Mikko Räsänen was member of the Board of Directors from 2013 to the Annual General Meeting on 28 May 2021.

Statement on the implementation of the Board Diversity Policy 2021

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

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

At the 2021 Annual General Meeting, the shareholders' Nomination Committee proposed that Seppo Laine Anne Korkiakoski, Helena Säteri and Raimo Lehtiö be re-elected as members of the Board of Directors. Furthermore, the shareholders' Nomination Committee proposed that Hannu Lehto and Jani Nokkanen be elected to the Board. The proposed persons were elected to the Board. Hannu Lehto was elected as Chairman of the Board.

The defined diversity goal is well implemented in the Company Board of Directors. The Board comprises 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 the megatrends identified by the Company, in international duties, the capacity to develop the Company and assess the views of parties that use the Company's services. According to the self-assessment of the Board of Directors, the members of the Board have been able to devote a sufficient amount of time to Board duties to ensure the Board's operating conditions.

BOARD COMMITTEES

The preparation of matters within the competence of the Board of Directors 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 on 28 May 2021, the Board of Directors elected Anne Korkiakoski (Chairman), Seppo Laine, and Hannu Lehto as members of the Audit Committee. The members of the Committee, except Hannu Lehto, 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 2021, the Audit Committee had four meetings and all members attended all meetings.

SHAREHOLDERS' NOMINATION COMMITTEE

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

The members of the shareholders' Nomination Committee shall comprise the representatives of the three biggest shareholders who have accepted the responsibility. The biggest shareholders shall be annually named with regard to the situation on the last September date of public trading organised by Nasdaq Helsinki Ltd on the basis of the company's shareholders' register, held by Euroclear Finland Ltd. Each of the three biggest shareholders shall nominate one representative for the Nomination Committee. Should someone opt out of the nomination right, the right is transferred to the next biggest shareholder in order

who otherwise would not have the nomination right. The Chairman of the company's Board of Directors shall act as an expert member of the Committee without a right to vote.

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

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

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

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

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

In 2021 the Shareholders' Nomination Committee consisted of Hannu Lehto (Lehto Invest Ltd), Jaakko Heikkilä, and Esko Torsti (Ilmarinen Mutual Pension Insurance Company)

GROUP MANAGEMENT

CEO

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

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



Juuso Hietanen, born 1977, has been the Company's CEO from May 2021. Hietanen was Bonava Finland's CEO prior to joining the Company. Prior to that, he held management positions in housing production at NCC since 2004 in Finland, Russia, and the Baltic countries. Juuso Hietanen has a master's degree in engineering.

At the end of the financial period 2021 Juuso Hietanen owns directly or indirectly 86,198 shares of the Company which are 0,10 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 2021 consists of, in addition to CEO:

- ♦ **Veli-Pekka Paloranta**, CFO, Chief Financial Officer
- ♦ **Timo Reiniluoto**, EVP, Business Support Services
- ♦ **Jukka Haapalainen**, EVP, Factory Production
- ♦ **Arto Tolonen**, CDO, Chief Development Officer
- ♦ **Kaarle Törrönen**, Vice President, Human Resources
- ♦ **Antti Asteljoki**, Chief Commercial Officer

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



Veli-Pekka Paloranta, born 1972, has been the Chief Financial Officer in Lehto since November 2015. In 2000– 2015, he has worked in the JOT Automation and Elektrobit groups. During 2010-2015 he was the CFO of Bittium Plc (former Elektrobit Plc) and since 2020 he has acted

as the Member of the Board of Directors and the Member of the Audit Committee in Bittium Plc. Paloranta holds the degree of Master of Science in Economics.



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.



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.



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.



Arto Tolonen, born 1966, has served as Chief Development Officer since 2018. Previously Tolonen 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.



Antti Asteljoki, born 1974, has served as Chief Commercial Officer since 2020. Asteljoki is an experienced professional in the real estate industry who has worked in different managerial positions since 2004. Last he held the position of an executive in charge of housing business in Sato Plc.



DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM 31 DECEMBER 2021

Name	No. of shares held	Shareholding ratio
Veli-Pekka Paloranta	501 653	0.58 %
Timo Reiniluoto	35 887	0.04 %
Jukka Haapalainen	20	0.00 %
Arto Tolonen	2 673	0.00 %
Kaarle Törrönen	4 500	0.01 %
Antti Asteljoki	-	-
Total	544 733	0.62 %

The memberships of the Group's Executive Team that ended during 2021

Jaakko Heikkilä, born 1971, was a member of the Group's Executive Team until August 2021. Heikkilä served as EVP, Business Premises.

Juha Höyhtyä, born 1965, was a member of the Group's Executive Team until August 2021. Höyhtyä served as EVP, Housing.

Business operations management

The Group's operational business was during 2021 divided into two service areas: Business Premises and Housing. At the end of financial period 2021 Mikko Mensio acted as the head of Business Premises and Juuso Hietanen acted as the head of Housing who, with the service area executive group, oversee the planning of the service area's products and services, production and sales as well as the general development of the service area. The EVP's report monthly

to the CEO of the Group and to the service area steering group. The steering group includes the EVP of the service area, the CEO, CFO and the EVP of Business Support Services as well as other management if necessary.

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

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

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

RISK MANAGEMENT

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

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

In connection with the strategy process and annual planning, the CEOs of the Company and the 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 administrative burden.

INTERNAL CONTROL

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

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

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

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

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

Lehto Group's internal control framework consists of:

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

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

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



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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Financial reporting organisation and duties

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

The main duties of financial administration include:

- ♦ Group accounting
- ♦ subsidiaries' accounting
- ♦ sales invoicing and accounts receivable management

- ♦ accounts payable management
- ♦ remittance of payments
- ♦ compilation of monthly financial reports supporting the business operations
- ♦ cash management and the coordination of financing
- ♦ control of the forecast and budgeting process
- ♦ taxation and transfer pricing
- ♦ company law-related duties.

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

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

Financial reporting systems

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

The general ledger accounting of the Group's special purpose vehicles is handled in the V10 system, and Group consolidation is handled in the Cognos Controller system.

Payment process is handled through with Analyste Banking system.

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

Supervision of financial reporting

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL ROLES AND RESPONSIBILITIES

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

Board of Directors

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

Audit Committee

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

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

A more detailed description on how the Audit Committee is fulfilling its supervisory role is available in the Committee's

annual plan. The Audit Committee reports to the Company's Board of Directors.

CEO

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

Chief Financial Officer and financial administration

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

The financial administration:

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

HR Director

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

EVPs of service areas

The 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.

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

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

Lehto Group complies with the EU Regulation on Market Abuse (MAR), which declares that managers under the obligation to report insider holdings may not trade the company's financial instruments during the 30 days prior to the publication of a Lehto Group half year financial report, interim reviews on

financial position and development or financial statements release (so called "closed period"). In accordance with the Lehto Group's regulation, the closed period ends the second day from the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information. According to Nasdaq Helsinki's insider guidelines the closed window shall be applied to persons that take part in the company's half year financial reports and financial statements and to other persons defined by the company, i.e. extended closed window. The extended closed window implies that trading with the company's financial instruments is prohibited of persons subject to the extended closed window in the 30 days prior to publication of quartal financial information and financial statements including information concerning the financial development of the company. These trading restrictions end on the second day following the publication of financial information. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information.

RELATED PARTY ADMINISTRATION

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

On 17 June 2020, the Company's Board of Directors approved the guidelines for related party transactions,

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

INTERNAL AUDITING

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

AUDITING

According to Section 6 of the Company's Articles of Association, an audit firm whose chief auditor is a Chartered Accountant shall be elected as the company's auditor. The auditor's term of office shall expire at the end of the next Annual General Meeting following their election. In 2021, KMPG Oy Ab, a firm of authorised public accountants, acted as the Company's auditor, with APA Pekka Alatalo as the principal auditor. The fees for audit services in 2021 totaled approximately EUR 211,000. Furthermore, the Company paid the auditor approximately EUR 9,000 for services not related to auditing.

LEHTO

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