LEHTO

Annual Report 2022

Lehto Group Plc

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Report by the Board of Directors 2022

Lehto Group Plc

Summary 2022

Group	1-12/2022	1-12/2021
Net sales from continuing operations, EUR million	344.8	404.1
Change in net sales from continuing operations, %	-14.7%	-21.8%
Operating result from continuing operations, EUR million	-42.2	-28.3
Operating result from continuing operations, % of net sales	-12.2%	-7.0%
Result from continuing operations, EUR million	-58.8	-29.9
Result from discontinued operations, EUR million	32.1	-2.7
Result for the period, EUR million	-26.7	-32.6
Order backlog at period end, EUR million	205.9	444.2
Earnings per share, EUR	-0.31	-0.37
Cash and cash equivalents, EUR million	13.2	32.8
Financial liabilities, EUR million	33.9	45.8
Lease liabilities, EUR million	77.8	90.4
Equity ratio, %	27.0%	27.2%
Net gearing ratio, %	147.9%	113.8%
Equity ratio, excl. IFRS 16 lease liabilities, %	38.7%	37.3%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	31.0%	14.4%

- In 2022, net sales from continuing operations were down 14.7% on the previous year and amounted to EUR 344.8 (404.1) 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 -42.2 (-28.3) million. The operating result was burdened by approximately EUR 30 million in special items. These special items are:
  - Five fixed-price business premises projects that were priced before 2021 resulted in considerable losses due to rising construction costs
  - Significant reductions in the sale prices of housing units in one project in a discontinued line of business, and also in some other individual projects
  - Costs incurred by terminating loss-making or low-margin project contracts
  - Losses related to the discontinued Optimikodit business
  - Credit losses
- The construction of 586 (1,835) new housing units was started during the financial year. The number of start-ups fell due to the postponement of several housing projects towards the end of the financial year. At the end of the review period, there were 1,196 (2,002) units under construction, the majority of which are related to projects for institutional investors. At period-end, the number of completed and unsold apartments stood at 73.
- The operating loss was EUR 26.7 million (operating loss of EUR 32.6 million). The result for the financial year was improved by capital gains from the divestment of the pipeline renovation business (EUR +30.9 million after expenses incurred by the sale) and was weakened by a significant reduction in the value of deferred tax assets (EUR -12.8 million).

- At the end of the financial year, cash and cash equivalents stood at EUR 13.2 (32.8) million and interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 33.9 (45.8) million. Cash and cash equivalents were increased by the divestment of the pipeline renovation business, and reduced by loan repayments and the loss-making result.
- The Group's order backlog fell to EUR 205.9 million (order backlog for continuing operations EUR 444.2 million on 31 December 2021).
  - The order backlog for the Business Premises service area decreased by 75 per cent to EUR 50.3 million, and the order backlog for the Housing service area decreased by 36 per cent to EUR 155.6 million. The main reason for the decrease in the order backlog for business premises is the termination of project contracts that had already been entered into the order backlog and were under negotiation due to their loss-making nature.
  - The order backlog for housing fell due to the low number of project start-ups. Difficulty in obtaining financing led to delays in project start-ups.
- A financing package amounting to about EUR 50 million was implemented in June. Its key elements were:
  - Divestment of the pipeline renovation business (approximately EUR +29 million)
  - A new RCF credit facility from the banks (approximately EUR +13 million)
  - RS financing from banks for ongoing and new construction projects (approximately EUR +26 million)
  - The issue of convertible bonds (approximately EUR +15 million)
  - Repayment of the previous RCF credit facility and bilateral loans (approximately EUR -32 million).

Net sales by service area, EUR million

	1-12/2022	1-12/2021	Change
Housing	213.3	254.3	-16.1%
Business Premises	131.5	149.8	-12.3%
Total	**344.8**	**404.1**	**-14.7%**

Business environment and business development in 2022

Development of the business environment

Lehto operates in Finland, and the construction sector is very sensitive to general economic cycles. In December 2022, the Bank of Finland estimated that the Finnish economy would grow by 1.9 per cent in 2022 and enter a mild recession in 2023 with GDP contracting by 0.5 per cent. The cause of this recession is the energy crisis exacerbated by Russia's war of aggression and a rapid rise in the cost of living. The Bank of Finland expects growth to recover in 2024.

In its business cycle review published in October 2022, the Confederation of Finnish Construction Industries RT predicted that construction would grow by 2 per cent in 2022, supported by the existing work backlog and continued good performance in housing construction. In October, the Confederation forecast that construction would decrease by 2 per cent in 2023 due to a contraction in new building construction and infrastructure construction. High inflation and rising interest rates are considered to be two key factors that are hindering construction.

A decrease in building permits also forecasts a contraction in the construction market. According to Statistics Finland, 35 per cent fewer building permits were issued for new construction in September–November 2022, and 20 per cent fewer construction projects were launched in that period than a year earlier.

The prices of building materials rose during 2022, but levelled off – or even decreased – towards the end of the year. According to Statistics Finland, construction costs in December 2022 had increased by 5.3% year-on-year. The greatest increase in annual costs for material inputs was seen in thermal insulation (17.8%) and supplies for heating, water supply and sewerage (17.1%). The prices of some supplies also decreased and, for example, costs for wooden structures were 7.6% less than in the previous year.

Interest rates have been low for a long time, but major changes were seen during 2022. This affected investor demand in particular. At the same time, continued high inflation caused a fall in demand and the postponement of investment decisions due to difficulty in forecasting property maintenance costs and rent levels in the near future.

Housing

In the Housing service area, Lehto builds new blocks of flats in growth centres and implements care homes and assisted living units 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.

The Housing business primarily comprises developer-contracted housing projects, in which 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 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.

Lehto also 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. In terms of building type, care homes are similar to conventional residential buildings.

In June 2022, Lehto divested its pipeline renovation business, which operated within the Housing service area. Housing's net sales figures have therefore been adjusted with respect to both the reporting and comparison periods.

Business development in 2022

Demand for housing construction weakened during the year. Consumer confidence remained low throughout the year, and general uncertainty concerning Finland's economic situation rose towards the end of the year. Rising inflation and an increase in interest rates, coupled with increased difficulty in obtaining financing, had a negative impact on demand for housing.

The Housing service area's net sales experienced a year-on-year decrease of 16.1% to EUR 213.3 (254.3) million. Sales volumes of housing units were lower than in the previous year, and noticeably fewer housing projects were started than in the comparison period. A total of 758 housing units were sold during the review period, most of which were built as part of investor projects.

Sold housing units during the review period	1-12/2022	1-12/2021
To investors	497	1,529
To consumers	261	319
Sold housing units during the review period, total	**758**	**1,848**

During the period, 1,392 (1,277) housing units were completed and the construction of 586 (1,835) new units was started. The newly started projects were located in the Helsinki Metropolitan Area and Oulu. There were 1,196 (2,002) housing units under construction at the end of the review period.

Housing units under construction	1-12/2022	1-12/2021
Under construction at the beginning of the period	2,002	1,444
+ started up during the period	586	1,835
- completed during the period	-1,392	-1,277
Housing units under construction at period-end	**1,196**	**2,002**

At the end of the review period, 254 (456) housing units were either under construction or completed yet unsold. Of these, 73 (26) were completed, unsold apartments. Housing projects strongly focus on investor sales, but the company has the technical and operational capabilities to begin consumer projects when the market situation changes.

Unsold housing units	1-12/2022	1-12/2021
Under construction	181	430
Completed	73	26
Unsold housing units, total	**254**	**456**

The Housing service area's order backlog stood at EUR 155.6 million at the end of the review period (EUR 242.3 million on 31 December 2021). 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.

The volume of care home construction was higher than in the comparison period, as some assisted living units larger than traditional care homes were included in housing construction projects. One (4) care home was completed during the review period. Two (1) assisted living projects were under construction at the end of the period. 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.

Mr Tero Karislahti, 39, was appointed as Executive Vice President of the Housing service area and as a member of Lehto Group's 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

Lehto has lengthy experience in building hall-like business premises, such as retail premises, shopping centres, and logistics, warehouse and production facilities. Lehto has also built other types of buildings, such as offices, hotels and schools – some of which have resulted in significant losses. Lehto updated its strategy for business premises during 2022 and, in line with this, the Business Premises service area will now focus more clearly on the construction of hall-like premises.

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, as well as cities and municipalities.

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 2022

The service area's net sales experienced a year-on-year decrease of 12.3% to EUR 131.5 (149.8) million. Net sales declined particularly as a result of terminated project contracts, but also due to Lehto's more selective project selection process than before.

Fourteen business premises projects were completed and handed over during the review period (18 sites in 2021). At the end of the period, 6 (15) projects were under construction, most notably a local service centre in Kivistö, Vantaa; a twin tower in Malmi, Helsinki; and an operating office at the Kemi bioproduct mill.

New orders valued at EUR 35.3 million were signed during the period and the order backlog decreased to EUR 50.3 million (EUR 202.0 million on 31 December 2021). The reduction in the order backlog was mainly due to terminated contracts and the low number of new agreements. In total, Lehto has terminated the contracts or preliminary agreements for six projects. The total value of these projects is about EUR 125 million, of which EUR 73 million had already been entered into the order backlog.

The result for Business Premises was burdened by five projects that are significantly loss-making and are no longer part of Lehto's current strategy. One of these is a complete renovation project, two are hotel projects, and two are office building projects. The losses have arisen 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 renovation project in question date from 2019.

Lehto has been developing the Hippos2020 project with the City of Jyväskylä. Lehto and the City of Jyväskylä are still developing the project, even though uncertainties related to the weakening market situation have increased.

Lehto has implemented operational changes to improve project risk management in the Business Premises service area, and mobilised them in practice under the leadership of the service area's new EVP from the beginning of 2022. When evaluating prospective projects, the company pays particular attention to their suitability with respect to the company's resources and strategy.

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, 199 people worked in factory operations (253 on 31 December 2021). Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.

In January 2023, Lehto Group Plc's subsidiary Lehto Components Oy signed an agreement with the City of Oulainen, according to which Lehto Components Oy will sell a factory complex to the City of Oulainen. The complex consists of a 10,000m² factory building and its warehouses, and the sale price is approximately EUR 4.7 million. The closing of the transaction will be subject to the fulfilment of standard terms and conditions, and cannot be completed until the Oulainen City Council's decision comes into force. If concluded, the divestment will have a minor positive impact on Lehto's operating result for 2023 and a positive impact of about EUR 4.5 million on cash flow. The sale of the factory complex had not yet been completed when this release was published.

Balance sheet and financial position

Consolidated balance sheet, EUR million	31 Dec 2022	31 Dec 2021
Non-current assets	27.7	49.2
Current assets		
Inventories, excluding IFRS 16 assets	101.2	108.3
Inventories, IFRS 16 assets	70.9	86.6
Current receivables	50.4	78.3
Cash and cash equivalents	13.2	32.8
Non-current assets held for sale	3.8	0.0
Total assets	**267.2**	**355.1**
Equity	66.6	90.9
Financial liabilities	33.9	45.8
Lease liabilities	77.8	90.4
Liabilities to customers for constructing contracts (advances received)	20.6	20.5
Other payables	68.4	107.4
Total equity and liabilities	**267.2**	**355.1**

The balance sheet total declined to EUR 267.2 (355.1) 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 38.3 million. The equity ratio (taking lease liabilities into consideration) stood at 27.0% (27.2%) and the net gearing ratio was 147.9% (113.8% on 31 December 2021). The equity ratio without the lease liabilities under IFRS 16 stood at 38.7% (37.3%) and the net gearing ratio was 31.0% (14.4%).

Assets

Non-current assets amounted to EUR 27.7 (49.2) million at the end of the review period. This decrease was largely due to a EUR 12.8 million reduction in the value of deferred tax assets. Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 2.9 (3.9) million in machinery and equipment, and EUR 9.9 (11.4) million in factory buildings, of which EUR 3.7 million were non-current assets held for sale.

Inventories fell to EUR 172.1 (194.9) million, mainly due to a EUR 15.7 million decrease in inventories in accordance with IFRS 16.

Current receivables declined to EUR 50.4 (78.3) million and included trade receivables of EUR 21.8 (39.7) million and percentage-of-completion receivables of EUR 24.4 (36.6) million.

Cash and cash equivalents totalled EUR 13.2 million on 31 December 2022 (EUR 32.8 million on 31 December 2021).

Equity and liabilities

As a consequence of the loss for the financial year, shareholders' equity fell to EUR 66.6 (90.9) million during the period. In addition to loss-making operations, the result for the financial year was weakened by a EUR 12.8 million reduction in the value of deferred tax assets. It was improved by capital gains from the divestment of the pipeline renovation business (EUR +30.9 million after expenses incurred by the sale).

Financial liabilities excluding lease liabilities declined to EUR 33.9 million during the review period (EUR 45.8 million on 31 December 2021). The table below presents a breakdown of interest-bearing liabilities at the balance sheet date:

Interest-bearing liabilities	31 Dec 2022	31 Dec 2021
Revolving credit facility (RCF)	13.0	25.1
Convertible bond	15.0	
from which expenses adjusted and the equity component separated	-3.3	
Project-specific loans	0.0	3.2
RS loans related to unsold apartments in developer contracted housing projects	9.2	7.4
Investment loans	0.0	4.8
VAT payment arrangement	0.0	5.3
Financial liabilities, total	**33.9**	**45.8**
IFRS 16 lease liabilities	77.8	90.4
Interest-bearing liabilities, total	**111.7**	**136.3**

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.

Liabilities based on customer contracts (advances received) remained at the same level as on the 2021 balance sheet date: EUR 20.6 (20.5) million. Liabilities based on customer contracts include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities decreased to EUR 58.0 (85.0) million. They include liabilities related to ordinary business operations, such as EUR 24.8 (46.0) million in trade payables and EUR 9.6 (8.1) million in VAT liabilities.

Cash flow statement, EUR million	**1–12/2022**	**1–12/2021**
Cash flow from operating activities		
Result for the period + adjustments to accrual-based items	-49.2	-14.9
Change in net working capital	15.5	-25.6
Total cash flow from operating activities	-33.7	-40.5
Cash flow from investments	27.8	-0.7
Cash flow from financing	-13.6	-31.1
Change in cash and cash equivalents	**-19.5**	**-72.3**
Cash and cash equivalents at the beginning of the period	32.8	105.1
Cash and cash equivalents at the end of the period	13.2	32.8

Net cash flow from operating activities was EUR -33.7 (-40.5) million, which includes a positive impact of EUR 15.5 (-25.6) million due to the decrease in net working capital. The decline in net working capital was caused by a reduction in inventories, sales receivables and other receivables.

Net cash flow from investments was EUR 27.8 (-0.7) million, of which EUR 28.7 million resulted from the divestment of the pipeline renovation business. Net cash flow from investments was EUR -0.4 (-0.4) million, of which EUR -0.4 million relates to tangible assets (mainly replacement investments) and EUR -0.4 (-0.8) million to intangible assets.

Net cash flow from financing was EUR -13.6 (-31.1) million. A new RCF revolving credit facility of EUR 13 million and a EUR 15 million convertible bond were drawn during 2022. A total of EUR 38.3 (28.7) million in loans was repaid, including the repayment of the previous EUR 25.1 million RCF revolving credit facility, EUR 5.3 million in VAT liabilities as part of a payment arrangement with the Tax Administration and EUR 7.9 million in loans from other financial institutions.

	Excl. IFRS 16 lease liabilities			**Incl. IFRS 16 lease liabilities**		
Financial position, EUR million	**31 Dec 2022**	**31 Dec 2021**	**Change**	**31 Dec 2022**	**31 Dec 2021**	**Change**
Cash and liquid assets	13.2	32.8	-19.5	13.2	32.8	-19.5
Interest-bearing liabilities	33.9	45.8	-12.0	108.3	136.3	-27.9
Interest-bearing net debt	20.6	13.1	7.6	95.1	103.5	-8.4
Equity ratio, %	38.7%	37.3%	1.4%	27.0%	27.2%	-0.2%
Net gearing ratio, %	31.0%	14.4%	16.6%	147.9%	113.8%	34.1%

Key financing agreements

Revolving credit facility (RCF)

On 30 June 2022, Lehto signed an agreement for a new Revolving Credit Facility (RCF) with OP Corporate Bank plc and Nordea Bank Plc. The RCF amounts to EUR 13 million and is valid until 31 March 2024. The entire credit facility was in use at the end of the review period. The RCF includes securities, financial covenants related to EBITDA and minimum cash requirements, restriction on dividend payouts while the agreement is in force, and conditions related to the company's operations and the constitution and chairman of the Board of Directors.

Not all of the covenant terms for the RCF were met at the end of the review period, and on the date when the Financial Statements were signed, the company had permission from the banks to temporarily exceed the covenant limits set in the agreement.

Convertible bond

On 30 June 2022, Lehto offered the first tranche of its unsecured convertible bonds due June 2027 for subscription by institutional and other qualified investors. The convertible bonds are convertible into new and/or existing shares in Lehto and were issued in an aggregate principal amount of EUR 15 million.

In accordance with its undertaking announced on 29 June 2022, the biggest shareholder of the company, Lehto Invest Oy, subscribed for convertible bonds for an amount of EUR 8.0 million in connection with the convertible bonds' first tranche issue, and an additional subscription of EUR 2.0 million was announced on 29 September 2022.

The transaction aims to improve the financing position of the company and to facilitate the company's bank financing arrangement, and the proceeds from the convertible bonds will be used for general corporate purposes.

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 last instalment was paid on August 2022, at which time the arrangement was also concluded.

Continuity of operations

In connection with the preparation of the financial statements, the company has made an assessment of the conditions for the continuity of operations. In the evaluation, it has been found that as a result of the loss-making business, the company's financial situation has weakened and the financing of the company's construction projects has become more difficult.

During the next 12 months, the following factors are considered to particularly affect the adequacy of the treasury:

- General development of the Finnish economy and construction market
- The profitability of the company's projects
- The company's ability to adjust its fixed costs
- Obtaining financing and the necessary guarantees for projects
- Timing and sale prices of the company's balance sheet assets
- Progress in structural and proprietary arrangements
- The company's ability to stay within the terms of the key financing agreement.

The company has prepared both profit and cash scenarios, in which the aforementioned factors have been taken into account and their probabilities have been assessed. As a conclusion of the evaluation, the company's management and board of directors have stated that there are no such uncertainty factors related to the company's operations that would give significant reason to doubt the company's ability to continue its operations and cope with its payments during the next 12 months.

Personnel and remuneration

The average number of Group personnel during the review period was 860 (1,043 in 2021). The number of personnel at period-end was 664 (1,042 on 31 December 2021). About 52% of the Group's personnel are salaried employees and about 42% work at construction sites.

In March 2022, on the basis of an authorization granted by the Annual General Meeting of 28 May 2021, the company carried out a directed bonus issue of 151,842 shares in order to implement a share-based incentive scheme for personnel.

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 and windows 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 0.4 (0.7) 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, the company seeks to attract new business opportunities and partners, as well as to further improve the profitability and predictability of its operations. Further development of risk management is one of the major priorities in Lehto's operations.

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

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

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

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

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

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

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

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

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

Key risks during 2023

The prices of numerous building materials increased sharply and the availability of certain materials weakened in 2022. This applies to wood, processed wood, concrete elements, insulation and technical building components in particular. 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. The realisation of these risks could have a significant impact on Lehto's full-year net sales and operating result for 2023. In order to eliminate such risks, Lehto engages in continuous dialogue with its suppliers and assesses the potential for using substitute materials or components in its projects.

Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks. The coronavirus pandemic and war in Ukraine have caused general uncertainty in the customer and financing markets, 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. It is possible that the startup of the company's construction projects will be delayed if Lehto is unable to organise project-specific financing or guarantees for its projects.

The increase in inflation that started in 2022 and the significant rise in interest rates have particularly affected investor demand. The continuation of interest rates at a high level or a further rise in interest rates can further weaken the demand for both apartments and business premises.

Lehto is currently working on both contracts and developer contracted projects in both the Housing and Business Premises service areas. Net sales and operating profit will be affected by the accuracy of project cost estimates, progress in selling these projects and exactly when they are sold.

Impacts of the coronavirus situation and war in Ukraine

In the company's opinion, the most significant impacts of the coronavirus pandemic on the construction industry have concerned disruptions to production and logistics chains, as a result of which the prices of building materials have risen and their availability has decreased. Although some prices have remained high, the company does not currently see any factors arising directly from the pandemic that would have an impact on its business.

The war in Ukraine has had adverse impacts on Lehto's business environment. The most significant effects are a sharp rise in costs and an increase in general market uncertainty. According to Statistics Finland, construction costs in December 2022 had increased by 5.3% year-on-year. Costs of materials grew by 8.5% year-on-year and labour costs by 1.0%. Lehto seeks to control rising costs especially by confirming procurement prices in advance. The continuation or expansion of the war may cause more uncertainties in Lehto's business.

Due to market uncertainty, Lehto has reduced the volume of developer-contracted housing and business premises construction. The company is very selective in starting up new developer contracting projects.

Responsibility and environmental issues

Responsibility is one of the values that guides Lehto's operations. Lehto's goal is to build efficiently while saving energy and resources, to reduce the material waste generated during construction, and to be a good employer that is fair to everyone. The construction sector will play a significant role in curbing climate change, adapting to it, and reducing the use of non-renewable natural resources. Lehto's aim is to combine smart and sustainable construction with the benefits afforded by digitalisation. For example, Lehto has developed solutions for wood construction that utilise factory production, which is more ecological and resource-efficient than traditional construction.

At Lehto Group, the CEO is ultimately responsible for environmental issues. Responsibility for practical environmental management is assigned as follows: EVPs of the service areas for construction; the factory production manager for factory production; and the Chief Procurement Officer for centralised purchasing. The HR Director is in charge of responsibility issues relating to personnel. The management team monitors trends in the key indicators of responsibility. Sustainability issues are discussed in management teams as part of both routine business management and development.

Lehto is a member of the Green Building Council Finland cooperation network, as we have also wanted to promote sustainable construction solutions through this avenue. As a member of Green Building Council Finland, Lehto was involved in the 2022 activities of its Construction and Communications Committees.

The Lehto Group monitors sustainability with the aid of three themes that follow an ESG-style breakdown (environment, social and governance). The themes we monitor are: responsible construction, personnel wellbeing, and the responsibility of business practices.

In 2022, efforts were made to improve waste sorting and recycling. Both the sorting and recycling rates of construction and demolition waste increased compared to previous years. Masses of contaminated soil are not included in the waste identification numbers. Some of the plots have soil materials that have been spoiled as a result of the previous history of the plot.

Lehto strived to implement energy-saving measures in all its service areas and participated in the nationwide Down a Degree energy-saving campaign, which started in the fall of 2022. During 2022, operational floor space in Lehto's own use was reduced. The use of space could be made more efficient as the workload and number of personnel changed.

Lehto signed up for the Building Life initiative related to reducing greenhouse gas emissions, which aims to work towards a carbon-neutral built environment by 2035. Lehto was also involved in the Climate Indicator project, which aims to promote the reduction of the carbon footprint and the reduction of life cycle costs. In 2022, greenhouse gas emission calculations were prepared for some of Lehto's construction projects. They examined both product-related and operational phase emissions.

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 five operative subsidiaries. All operative subsidiaries are located in Finland and the parent company has a 100% shareholding. The Group also comprises two non-operative companies in Sweden as well as some temporary real-estate companies or shareholdings in them. In June 2022, the Group sold 100% owned pipeline renovation subsidiary Remonttipartio.

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.

Resolutions of the 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 2 May 2022. The Annual General Meeting approved the financial statements for 2022 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 2021.

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 five members.

Pursuant to the proposal made by the shareholders nomination committee Anne Korkiakoski, Jani Nokkanen, Helena Säteri and Hannu Lehto were re-elected as members of the Board of Directors, Eero Sihvonen was elected as a new member 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 2023.

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.

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 2023. 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 40,000,000 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 execute equity-linked financing arrangement published on 11 April 2022, 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. Eero Sihvonen was elected as the Chairman and Anne Korkiakoski and Hannu Lehto as the members of the committee.

Change in roles in Lehto Group Plc´s Board of Directors and Audit committee on Dec 5, 2022

On Dec 5, 2022 Hannu Lehto moved from the role of chairman of the board to a member of the board at his own request and the Board elected, from among its members, Eero Sihvonen as the new Chairman. As Eero Sihvonen took the role as Chairman of the Board, the Board of Directors elected Anne Korkiakoski as new Chairman of the Audit committee. Eero Sihvonen and Hannu Lehto act as the members of the committee.

Shares and shareholdings

Lehto Group Plc 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 16,886 shareholders. The company holds 28,123 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 2022 was EUR 0.172. The share's highest rate during the review period was EUR 0.944 and its lowest rate was EUR 0.167. A total of 45,210,912 shares in the company were traded during the period with a trading value of approximately EUR 23 million.

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

Transfer of own shares

In March 2022, with the authorization given by the Annual General Meeting held on May 28, 2021, the company carried out a directed share issue without consideration, 151,842 shares, to implement the share-based incentive plan.

Events after the review period

9 January 2023: Lehto announced that it will sell one of its factory buildings in Oulainen for EUR 4.7 million. The closing of the transaction will be subject to the fulfilment of standard terms and conditions, and cannot be completed until the Oulainen City Council's decision comes into force. The transaction had not yet been completed when this release was published.

30 January 2023: Lehto announced that the operating result for 2022 would be lower than previously estimated.

30 January 2023: Lehto announced the launch of negotiations on structural and ownership arrangements.

1 February 2023: the company published a proposal made by the Shareholders Nomination Committee on the composition and remuneration of the Board of Directors. The proposal will be presented to the Annual General Meeting scheduled for 30 March 2023.

Outlook for 2023

Due to the uncertain market and financing situation of the construction industry, and the ongoing process regarding structural and ownership arrangements, there are many uncertainties related to 2023 outlook.

Lehto estimates that the 2023 net sales for Housing service area will be lower than in 2022 (EUR 213,3 million in 2022) and the net sales in Business Premises service area will decrease significantly from 2022 (EUR 131,5 million in 2022). Operating result is estimated to improve substantially.

The reason behind the declining net sales is the decreased amount of projects in business premises and housing. The improvement of the operating result is mainly based on the reason that the company has no ongoing or starting projects which would include significant risk of loss.

The most significant risks related to net sales and operating result are the development of sales of apartments and business premises and the availability of financing and quarantees for the construction projects.

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 2022 amounts to EUR 47,702,699.67, of which the result for the financial year is EUR -19,547,063.98.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the financial year 1 January–31 December 2022.

Vantaa, 14 February 2023

Lehto Group Plc

Board of Directors

LEHTO

Financial Statements 2022

Lehto Group Plc

Financial Statements 2022

Financial Statements (audited)

Consolidated statement of comprehensive income, IFRS

	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Continuing operations			
Net sales	3	344 791	404 089
Other operating income	4	1 110	429
Changes in inventories of finished goods and work in progress		-5 846	-6 871
Material and services		-312 078	-346 968
Employee benefit expenses	5	-48 773	-56 083
Depreciation	6	-5 885	-6 959
Other operating expenses	7	-15 511	-15 888
Operating result		**-42 192**	**-28 251**
Financial income	8	41	104
Financial expenses	8	-3 362	-2 927
Result before taxes		**-45 513**	**-31 074**
Income taxes	9, 17	-13 285	1 183
Result for the financial year from continuing operations		**-58 797**	**-29 891**
Result for the financial year from discontinued operations	2	32 146	-2 724
Result for the financial year		**-26 651**	**-32 614**
Result attributable to			
Equity holders of the parent company		-26 652	-32 615
Non-controlling interest		1	1
		-26 651	-32 614

	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	23	25	-13
		25	-13
Comprehensive result attributable to			
Equity holders of the parent company		-26 627	-32 628
Non-controlling interest		1	1
		-26 626	-32 627
Earnings per share calculated from the result attributable to equity holders of the parent company, EUR per share	10		
Issue-adjusted average number of outstanding shares during the period, basic		87,276,343	87,142,297
Issue-adjusted average number of outstanding shares during the period, diluted		87,433,988	87,447,100
Earnings per share, basic, EUR/share		-0.31	-0.37
Earnings per share, diluted, EUR/share		-0.31	-0.37
Earnings per share, continuing operations, basic, EUR/share		-0.67	-0.34
Earnings per share, continuing operations, diluted, EUR/share		-0.67	-0.34
Earnings per share, discontinued operations, basic, EUR/share		0.37	-0.03
Earnings per share, discontinued operations, diluted, EUR/share		0.37	-0.03

Consolidated balance sheet, IFRS

	Note	31 Dec 2022	31 Dec 2021
ASSETS			
Non-current assets			
Goodwill	11	4 624	4 624
Other intangible assets	12	1 427	1 989
Property, plant and equipment	13	13 571	19 154
Investment properties	14	676	693
Other financial assets	15	971	771
Receivables	16	6 461	8 177
Deferred tax assets	17	0	13 797
Non-current assets, total		**27 730**	**49 206**
Current assets			
Inventories	18	172 060	194 878
Trade and other receivables	19	50 389	78 270
Financial assets at fair value through profit or loss	20	314	316
Cash and cash equivalents	21	12 922	32 453
Current assets, total		**235 684**	**305 917**
Non-current assets held for sale	2	3 824	0
TOTAL ASSETS		**267 238**	**355 123**

	Note	31 Dec 2022	31 Dec 2021
EQUITY AND LIABILITIES			
Equity			
Share capital		100	100
SVOP - Reserve for invested unrestricted equity		88 695	88 695
Translation difference		-229	-254
Retained earnings		-22 003	2 389
Capital attributable to equity holders of the parent company		**66 563**	**90 930**
Non-controlling interest		9	8
Equity, total	22	**66 571**	**90 938**
Non-current liabilities			
Deferred tax liabilities	17	0	221
Provisions	23	5 928	5 689
Financial liabilities	24, 26	11 670	3 132
Lease liabilities	24, 26, 27	68 405	88 170
Other non-current liabilities	25	206	115
Non-current liabilities, total		***86 209***	***97 326***
Current liabilities			
Provisions	23	7 590	16 340
Liabilities to customers for constructing contracts (advances received)	25	20 591	20 536
Trade and other payables	25	54 639	85 004
Current income tax liabilities	25	0	3
Financial liabilities	24, 26	22 195	42 701
Lease liabilities	24, 26, 27	9 442	2 275
Current liabilities, total		***114 457***	***166 859***
Liabilities, total		**200 667**	**264 185**
TOTAL EQUITY AND LIABILITIES		**267 238**	**355 123**

Consolidated cash flow statement, IFRS

	Note	31 Dec 2022	31 Dec 2021
Cash flow from operating activities			
Result for the financial year		-26 651	-32 614
Adjustments:			
Non-cash items		-8 282	9 436
Depreciation		5 885	8 827
Financial income and expenses		3 319	3 269
Capital gains		-31 611	-33
Income taxes		13 704	1 462
Changes in working capital:			
Change in trade and other receivables		25 607	-4 456
Change in inventories		8 868	413
Change in trade and other payables		-18 975	-21 522
Interest paid and other financial expenses		-5 392	-5 385
Financial income received		135	107
Income taxes paid		-299	-6
Net cash from operating activities		**-33 693**	**-40 503**

	Note	31 Dec 2022	31 Dec 2021
Cash flow from investments			
Investments in property, plant and equipment		-433	-414
Investments in intangible assets		-400	-762
Proceeds from sale of property, plant and equipment and intangible assets		109	33
Sale of discontinued operations (less cash at the time of sale)	2	28 722	0
Financial assets at fair value through profit or loss		-200	0
Repayments of loan receivables		43	749
Loans granted		0	-270
Dividends received		0	0
Net cash from investments		**27 840**	**-665**
Cash flow from financing			
Loans drawn	24	28 000	0
Loans repaid	24	-38 313	-28 732
Lease liabilities paid	24, 27	-2 193	-2 368
Loan arrangement fees		-1 116	0
Net cash used in financing activities		**-13 621**	**-31 100**
Change in cash and cash equivalents (+/-)		**-19 474**	**-72 269**
Effects of exchange rate change		-59	-17
Cash and cash equivalents at the beginning of the financial year		32 769	105 054
Cash and cash equivalents at the end of the financial year	20, 21	**13 236**	**32 769**

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 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**
Equity on 1 January 2022	**100**	**88 695**	**-254**	**2 389**	**90 930**	**8**	**90 938**
Comprehensive income							
Result for the financial period				-26 652	**-26 652**	1	**-26 651**
Other comprehensive income items							
Translation difference			25		**25**		**25**
Total comprehensive income			*25*	*-26 652*	***-26 627***	*1*	***-26 626***
Transactions with equity holders							
The equity component separated from the convertible bond				2 231	**2 231**		**2 231**
Share-based compensation				28	**28**		**28**
Transactions with equity holders, total				*2 260*	***2 260***		***2 260***
Equity on 31 December 2022	**100**	**88 695**	**-229**	**-22 003**	**66 563**	**9**	**66 571**

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 14 February 2023. 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

These financial statements have been prepared in accordance with the continuity of operations principle. In connection with the preparation of the financial statements, the company has made an assessment of the conditions for the continuity of operations. In the evaluation, it has been found that as a result of the loss-making business, the company's financial situation has weakened and the financing of the company's construction projects has become more difficult.

During the next 12 months, the following factors are considered to particularly affect the adequacy of the treasury; general development of the Finnish economy and construction market, the profitability of the company's projects, the company's ability to adjust its fixed costs, obtaining financing and the necessary guarantees for projects, timing and sale prices of the company's balance sheet assets, progress in structural and proprietary arrangements and the company's ability to stay within the terms of the key financing agreement. The company has prepared both profit and cash scenarios, in which the aforementioned factors have been taken into account and their probabilities have been assessed. As a conclusion of the evaluation, the company's management and board of directors have stated that there are no such uncertainty factors related to the company's operations that would give significant reason to doubt the company's ability to continue its operations and cope with its payments during the next 12 months. Financial risks are described in more detail in the note "Financial risk management".

Impacts of the Covid-19 pandemic and war in Ukraine

In the company's opinion, the most significant impacts of the coronavirus pandemic on the construction industry have concerned disruptions to production and logistics chains, as a result of which the prices of building materials have risen, and their availability has decreased. Although some prices have remained high, the company does not currently see any factors arising directly from the pandemic that would have an impact on its business.

The war in Ukraine has had adverse impacts on Lehto's business environment. The most significant effects are a sharp rise in costs and an increase in general market uncertainty. According to Statistics Finland, construction costs in December 2022 had increased by 5.3% year-on-year. Costs of materials grew by 8.5% year-on-year and labour costs by 1.0%. Lehto seeks to control rising costs especially by confirming procurement prices in advance. The continuation or expansion of the war may cause more uncertainties in Lehto's business. Due to market uncertainty, Lehto has reduced the volume of developer-contracted housing and business premises construction. The company is very selective in starting up new developer contracting projects.

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 2022. 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.

Non-current 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. 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.

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.

The pipeline renovations operations sold during the fiscal year, as well as Swedish operations discontinued in previous year, 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 operations and assets held for sale are described in the note "Discontinued operations and Non-current assets held for sale".

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 comparative 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.

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.

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.

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 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.

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.

Convertible bonds are classified as composite instruments, and their components are defined as liabilities or equity based on the content of the arrangement. The liability component is initially recognised at the fair value of an equivalent non-convertible liability. The equity component is initially entered as the difference between the fair value of the entire instrument and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to their initial book values. The value of the conversion right is included in the fair value. The liability component is then recognised at amortized cost using the effective interest method. The equity component is reclassified between equity items when bonds are either exchanged for shares or expire.

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.

If the contractual costs required to fulfil contractual obligations exceed the benefits of the contract, any impairment losses on assets pertaining to that contract should first be recognised. If the expected costs still exceed the benefits of the contract, a provision should be made for the loss-making contract.

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 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.

Sale and leaseback

In sale and leaseback situations, it should be determined whether the transfer of an asset meets the IFRS 15 requirements for treating it as a sale. If the transfer is a sale, the value of the right-of-use asset should be recognised as the proportion of the asset's original book value that corresponds to the value of the right-of-use that remains with the company. Only the proportion of capital gains or losses that corresponds to the rights transferred to the buyer is shown as capital gains or losses. If either the compensation received from the sale of an asset or the terms of the lease do not correspond to the fair values, revenue from the sale should be adjusted accordingly. If the terms of the sale are worse than market terms, they should be entered as advance payments. If they are better than market terms, they should be entered as financial liabilities. If the IFRS 15 criteria for a sale are not met, the transferred asset should still be reported in the balance sheet with the transfer price presented as a financial liability.

Revenue recognition principles

Sales revenue is recognised separately for each performance obligation in accordance with how control of the goods or service is transferred to the customer. If control of the goods or service is transferred to the customer over time, and the performance obligation is therefore fulfilled, sales revenue should be recognised over time. If the performance obligation is not fulfilled over time, the sale should be recognised at a point in time.

Performance obligations

At the time when a customer contract is signed, it should be assessed whether the goods or services promised in the customer contract contain any distinct performance obligations. Any performance obligations that are identified should be recognised as income separately in accordance with the standard.

As a rule, construction projects will involve one performance obligation for the company, that is, a completed construction project. Any additional work or modifications are generally treated as part of the original contract, as they are usually not separable products and/or services. If the company commits to warranty periods that are longer than prescribed in law or general terms and conditions, these warranties may be considered to be an additional service for the customer. Such warranties will then be treated as identified performance obligations, and part of the transaction price for the contract should be allocated to this performance obligation. A warranty that is classified as an additional service will also be recognised as income separately, as a performance obligation that is not part of the construction project.

Transaction price

The transaction price primarily consists of a fixed price and, when necessary, a variable component. The variable component of the transaction price will most commonly be a penalty for delay related to the date of completion. The variable sum should be estimated using the expected value method. When estimating the variable sum, the company should also take into account all information that is reasonably available. The variable sum should be included in the transaction price only in the amount for which it is highly probable that there will be no significant reversal in recognised sales revenue once the uncertainties relating to the variable amount are subsequently resolved. The variable sum included in the transaction price should be reassessed at the end of every reporting period. Adjustments to the transaction price resulting from these re-estimates should be made in accordance with the IAS 8 standard. Sales incentives granted for housing projects should be equated to price reductions and should be entered as adjustments to the sale price.

If customer contracts contain a significant financing component, the transaction price should be adjusted accordingly. If the financing period is less than a year, the company will apply the IFRS 15 exemption and not make any adjustments for the significant financing component when determining the transaction price.

Revenue recognition principles related to construction projects

If control of a project is transferred to the customer over time, and the performance obligation is therefore fulfilled over time, the construction project should be recognised as income over time according to the degree of completion. If the performance obligation is not fulfilled over time, the sale should be 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 and land areas are 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.ee transaction prices, include both the purchase prices paid by customers and the RS loan shares for apartments. The RS loan shares for the apartments are transferred from the company to the buyer in connection with the sale of the apartment share, and they are taken into account in revenue recognition as part of the transaction price. 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 current non-interest-bearing liabilities (note "Trade payables and other non-interest-bearing liabilities", in the breakdown "Liabilities to customers for constructing contracts (advances received), Debts on shares in unsold housing and real estate company shares in progress). Liabilities to customers for constructing contracts also show the purchase prices paid by customers. Liabilities to customers for constructing contracts 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 result

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 2022 or thereafter.

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. The amendment has no significant impact on the consolidated 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 2023:

Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies

Amendments to IAS 8 Accounting Policies – Definition of Accounting Estimates

Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback

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 only in Finland. 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	2022	2021
Net sales	***344 791***	***404 089***
Other operating income	1 110	429
Operating expenses	-382 208	-425 810
Depreciation and amortisation	-5 885	-6 959
Operating result	***-42 192***	***-28 251***
Financial income	41	104
Financial expenses	-3 362	-2 927
Segment's result before income taxes	***-45 513***	***-31 074***
Assets		
Segment's assets	***267 238***	***355 123***
Investments	834	1 222
Liabilities		
Segment's liabilities	***200 667***	***264 185***

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 67.4 million in 2022 (EUR 68.1 million in 2021), corresponding to approx. 20% (15%) of the segment's net sales. In 2022, the share of net sales of the largest individual customer was 10.9% (8.6% in 2021).

Order backlog	31 Dec 2022	31 Dec 2021
Order backlog	205 937	444 242
of which is likely to generate income within a year	169 307	310 214
of which is likely to generate income after one year	36 629	134 028

The order backlog includes the proportion of construction and investor projects that have been started but have not yet been recognised as net sales. A consumer project in housing production is included in the order backlog once the decision to start construction has been made and the contract for the project has been signed.

The order backlog in comparison year, Dec 31, 2021 included EUR 86 million of contracts that have been terminated during 2022.

2. Discontinued operations and non-current asstes held for sale

Discontinued operations

Lehto announced on April 28, 2022 and executed on June 14, 2022 the sale of pipeline renovation business. Pipeline renovation business belonged to Housing service area and Building Services operating segment. The transaction comprised the entire share capital of Remonttipartio Oy, a wholly owned subsidiary of Lehto, with enterprise value (EV) of approximately EUR 30.0 million. The purchase price was paid in cash at closing. The net sales of the pipeline renovation business in 2021 were EUR 31.8 million and its effect on the Group's operating result was EUR 4.2 million positive. 121 people worked in the business.

In comparison year 2021 Lehto discontinued business in Sweden. Swedish operations belong to Building Services operating segment. The reason for termination was the company's need to focus on competitiveness in Finland and the low volume of Swedish business. Following the decision to discontinue operations in Sweden, an impairment loss of EUR 1.8 million on intangible assets was recognized. The Group's balance sheet on Dec 31, 2022 includes current assets of EUR 0.4 million, a restructuring provision of EUR 0.1 million and liabilities of EUR 0.0 million.

Pipeline renovation business is presented also in comparison year as discontinued operations together with previously discontinued Swedish operations. Notes to income statement are presented only from continuing operations, comparison year included.

Result for the financial year from discontinued operations	2022	2021
Net sales	17 441	31 792
Other operating income	99	68
Expenses	-15 834	-29 626
Depreciation and impairment	0	-1 868
Operating result	***1 705***	***367***
Financial items	2	-446
Taxes	-419	-2 645
Result for the financial year	***1 288***	***-2 724***
Gain on sale of discontinued operations	31 502	
Costs related to sale of discontinued operations	-644	
Result for the financial year from discontinued operations	***32 146***	***-2 724***
Earnings per share, discontinued operations, basic, EUR/share	0.37	-0,03
Earnings per share, discontinued operations, diluted, EUR/share	0.37	-0,03

Effect of disposal of financial position of the Group	2022
Non-current assets	-38
Inventories	-69
Trade and other receivables	-3 873
Cash and cash equivalents	-2 817
Current liabilities	6 760
Net assets and liabilities	***-37***
Consideration received from sale of discontinued operations	31 539
Cash and cash equivalents disposed of	-2 817
Net cash flow	***28 722***

Cash flow from discontinued operations	2022	2021
Net cash from operating activities	2 798	365
Net cash from investments	28 741	-15
Net cash used in financing activities	0	0
Total	**31 539**	**350**

Non-current assets held for sale

Lehto Group Plc's subsidiary Lehto Components Oy has signed in January 2023 an agreement with City of Oulainen to sell its factory building and related warehouse buildings. The size of the factory building is approximately 10 000 square meters. The acquisition cost of factory in balance sheet is EUR 3.8 million and the sales price approximately EUR 4.7 million. The finalisation of the deal requires that the decision made by the city council gets the legal force. Given that the deal will happen, it has a small positive effect on Lehto's 2023 operating result and approximately EUR 4.5 million positive effect on Lehto's 2023 cash flow. The sale of the factory building has not yet been completed on the date of publication of the financial statements.

3. Net sales

	2022	2021
Revenue recognised over time	269 968	301 296
Revenue recognised upon delivery	74 558	102 062
Rental income	265	730
Total	**344 791**	**404 089**

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 (liabilities to customers for constructing contracts) at the beginning of the year was EUR 18.8 (24.5) million.

4. Other operating income

	2022	2021
Rental income	27	33
Grants	193	10
Damages	510	249
Capital gains	87	10
Other income	294	127
Total	**1 110**	**429**

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 equipments.

5. Employee benefit expenses

	2022	2021
Salaries and wages	40 294	46 010
Share-based incentives, to be paid out in shares	98	129
Pension costs– defined contribution plans	6 984	8 042
Other personnel costs	1 397	1 902
Total	**48 773**	**56 083**

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

Number of personnel in average during the year, Group	2022	2021
Salaried employees	474	560
Workers	386	483
Total	**860**	**1 043**

Number of personnel at the end of the financial year, Group	2022	2021
Salaried employees	386	549
Workers	278	493
Total	**664**	**1 042**

6. Depreciation

Depreciation of property, plant and equipment	2022	2021
Machinery and equipment		
Machinery and equipment	1 095	1 580
Machinery and equipment, right-of-use asset	58	131
Properties		
Properties in own use	743	742
Business premises, right-of-use asset	1 230	1 324
Inventories, right-of-use asset	1 664	1 581
Other tangible assets	115	115
Total	**4 906**	**5 473**

Depreciation of intangible assets	2022	2021
Customer relationships		225
Other intangible assets	962	1 244
Total	**962**	**1 469**

Depreciation of investment properties	2022	2021
Buildings and structures	17	18
Total	**17**	**18**

Depreciation and impairments, total	**5 885**	**6 959**

7. Other operating expenses

	2022	2021
Voluntary personnel expenses	1 152	1 659
Costs related to construction site and office space	3 385	3 322
IT and equipment expenses	3 107	3 161
Travel expenses	2 026	2 198
Product development expenses	774	360
Marketing expenses	1 645	2 351
Administrative services	2 038	1 896
Reduction from expected credit loss	19	11
Other operating expenses	1 364	929
Total	**15 511**	**15 888**

Fees paid to auditor:	2022	2021
Audit fees	245	211
Certificates and statements	6	3
Tax services	1	9
Other services	5	9
Total	*256*	*232*

8. Financial income and expenses

Financial income	2022	2021
Dividend income	0	0
Other financial income	41	104
Total	**41**	**104**

Financial expenses	2022	2021
Interest expenses	1 165	1 901
Interest expenses from lease liabilities	2 154	1 701
Capitalised interest expenses	-2 600	-1 643
Other financial expenses	2 643	968
Total	**3 362**	**2 927**
Financial income and expenses, total	**-3 321**	**-2 823**

9. Income taxes

	2022	2021
Current income tax	299	4
Change deferred tax assets	12 831	-1 071
Change deferred tax liabilities	154	-117
Total	**13 285**	**-1 183**

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country	2022	2021
Tax rate	20.0%	20.0%
Result from continuing operations before taxes	-45 513	-31 074
Taxes calculated at the tax rate of the domicile country	-9 103	-6 215
Tax-exempt income	-273	-1 087
Non-deductible expenses	507	227
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	-773	
Discontinued operations		836
Use of previously unrecognized tax losses		-488
Write-off of previously recorded deferred taxes	13 285	
Unrecognized deferred tax asset from losses	9 642	5 544
Total	**13 285**	**-1 183**

10. Share-based key figures

	2022	2021
Result for the financial year attributable to equity holders of the parent company	-26 652	-32 615
Issue-adjusted average number of outstanding shares during the period, basic	87,276,343	87,142,297
Issue-adjusted average number of outstanding shares during the period, diluted	87,433,988	87,447,100
Earnings per share, basic, EUR/share	-0.31	-0.37
Earnings per share, diluted, EUR/share [1]	-0.31	-0.37
Earnings per share, continuing operations, basic, EUR/share	-0.67	-0.34
Osakekohtainen tulos, jatkuvat toiminnot, laimennettu, euroa/osake [1]	-0.67	-0.34
Osakekohtainen tulos, lopetetut toiminnot, laimentamaton, euroa/osake	0.37	-0.03
Earnings per share, continuing operations, diluted, EUR/share [1]	0.37	-0.03

[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	87,311,287	87,159,445
Equity / share	0.76	1.04
Dividend per share paid in fiscal year	-	-
Dividend proposal per share from fiscal year	-	

11. Goodwill

Cash-generating unit: Building Services	2022	2021
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. Cash flow forecasts are based on the strategic forecasts for 2023-2027.

The pre-tax weighted average cost of capital (WACC) has been remeasured every year. Remeasuring is 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 2022 financial statements is 13.3% (8.2% in 2021).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2021. No material changes with an impact on expected cash flow from operations has occurred in the business environment compared with the previous financial year. Potential material changes in the business environment that affect business cash flow expectations, as well as a weakening market, are taken into account in the impairment testing. Impairment testing on 31 December 2022 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, 6.9%.

12. Other intangible assets

Other intangible assets 2022	Other intangible assets	Total
Acquisition cost at 1 Jan. 2022	8 826	8 826
Increases	400	400
Acquisition cost at 31 Dec. 2022	**9 226**	**9 226**
Accumulated depreciation and amortisation at 1 Jan. 2022	-6 837	-6 837
Depreciation, continuing operations	-962	-962
Accumulated depreciation and amortisation at 31 Dec. 2022	**-7 799**	**-7 799**
Carrying amount at 1 Jan. 2022	1 989	1 989
Carrying amount at 31 Dec. 2022	**1 427**	**1 427**

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	-225	-1 244	-1 469
Depreciation and impairment, discontinued operations		-1 814	-1 814
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**

13. Property, plant and equipment

Property, plant and equipment 2022	Right-of-use asset	Properties in own use	Machinery and equipment and other tangible assets	Total
Acquisition cost at 1 Jan. 2022	8 961	14 184	16 348	39 493
Increases	1 512	25	408	1 946
Decreases	-464			-464
Transfer to non-current assets held for sale		-3 773	-51	-3 824
Acquisition cost at 31 Dec. 2022	**10 010**	**10 436**	**16 705**	**37 151**
Accumulated depreciation and amortisation at 1 Jan. 2022	-5 229	-3 352	-11 758	-20 339
Depreciation, continuing operations	-1 288	-743	-1 210	-3 242
Accumulated depreciation and amortisation at 31 Dec. 2022	**-6 517**	**-4 095**	**-12 968**	**-23 581**
Carrying amount at 1 Jan. 2022	3 732	10 832	4 590	19 154
Carrying amount at 31 Dec. 2022	**3 492**	**6 341**	**3 737**	**13 571**

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, 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**

14. Investment properties

Investment properties 2022	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2022	202	809	1 011
Acquisition cost at 31 Dec. 2022	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2022		-318	-318
Depreciation		-17	-17
Accumulated depreciation and amortisation at 31 Dec. 2022		**-335**	**-335**
Carrying amount at 1 Jan. 2022	202	491	693
Carrying amount at 31 Dec. 2022	**202**	**474**	**676**

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	757
Carrying amount at 31 Dec. 2021	**202**	**491**	**693**

Net rental income	2022	2021
Rental income from investment properties	78	90
Direct maintenance costs for investment properties	36	32
Net rental income, total	**42**	**59**

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 2022	Fair value 2021
Business property	Acquisition cost	3	558	580
Land area	Acquisition cost	3	202	202
			760	**782**

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	2022	2021
Financial assets recognised through profit and loss at 1 Jan.	771	771
Increases	200	
Financial assets recognised through profit and loss 31 Dec.	**971**	**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

	2022	2021
Non-current project related bank deposits	6 313	7 732
Non-current loan receivables	92	390
Other non-current receivables	56	56
Total	**6 461**	**8 177**

17. Deferred tax assets and liabilities

Deferred tax assets 2022	1 Jan 2022	Book to equity	Recognised in income statement	31 Dec 2022
Fixed assets internal margin	37		-37	
Confirmed losses	9 587		-8 654	932
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	4 138		-4 138	
Other temporary differences	35		-35	
Adjustment from discontinued operations			33	
Netting deferred tax assets and liabilities				-932
Total	**13 797**		**-12 831**	**0**

Deferred tax liabilities 2022	1 Jan 2022	Book to equity	Recognised in income statement	31 Dec 2022
Temporary differences from capitalisation of financial expenses	7		25	32
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation			4	4
Depreciation difference with taxation	214		-43	171
Convertible bonds		558	110	668
Other temporary differences			58	58
Netting deferred tax assets and liabilities				-932
Total	**221**	**558**	**154**	**0**

On Dec 31, 2022 the Group wrote down deferred tax assets because the Group considers it possible that it will not have taxable income before the losses expire. Confirmed losses for which no deferred tax receivables have been recognized were EUR 140.9 (49.4) million. Of these losses, EUR 125.0 (32.0) million are allocated to Finland and EUR 15.9 (17.4) million to Sweden. The change in Sweden is due to the change in the exchange rate. These losses will expire from 2030 onwards.

Deferred tax assets and liabilities recorded in the balance sheet have been netted because they are related to taxes collected by the same taxpayer and they can be set off against each other based on a legally enforceable right.

Deferred tax assets 2021	1 Jan 2021	Recognised in income statement	31 Dec 2021
Fixed assets internal margin	50	-13	37
Tax losses carried forward	12 124	-0	12 123
Adjustment from discontinued operations, confirmed losses		5	-2 670
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	3 060	1 078	4 138
Other temporary differences	33	2	35
Exchange rate difference in opening balance	134	-0	133
Total	**15 401**	**1 071**	**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**

18. Inventories

	2022	2021
Materials and supplies	2 472	4 501
Work in progress	75 731	93 930
Right-of-use asset	70 178	86 052
Completed products	21 036	7 328
Inventory shares	49	153
Other inventories	2 593	2 914
Total	**172 060**	**194 878**

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

	2022	2021
Trade receivables	21 810	39 745
Loan receivables	571	651
Security deposits	2 239	20
Other receivables	366	403
Receivables from customers for constructing contracts	24 371	36 584
Adjusting entries for assets	1 032	867
Total	**50 389**	**78 270**

The company has previously presented all invoiced unpaid sales invoices in trade receivables, and correspondingly, the unrevenued part of these has been presented in advances received on the liability side of the balance sheet. This presentation has thus increased the balance sheet on both sides but it has had no effect on the company's result or significant indicators. However, the company has stated during the financial year that its previous way of presenting trade receivables has not been in accordance with section IE200 of the IFRS 15 standard, because netting has not been done. Therefore, if the company does not have an absolute right to consideration, the company must net the trade receivables and contractual liabilities in accordance with IFRS 15 IE200 and present in the trade receivables only those claims to which the company has an absolute right. The company has also retroactively adjusted the figures of the comparison period in accordance with IAS 8.42a). However, the change in presentation has no effect on the company's current year or previous years' result or significant indicators.

Ageing analysis of trade receivables and receivables from customers for constructing contracts	2022	2021
Not yet due		
Trade receivables	18 894	30 339
Receivables from customers for constructing contracts	24 371	36 584
Reduction from expected credit loss	-114	-95
Due for		
less than 30 days	1 621	6 680
30–60 days	27	102
61–90 days	14	
more than 90 days	1 368	2 719
Total	**46 181**	**76 329**

The carrying amount of receivables corresponds to their fair value.

20. Financial assets at fair value through profit or loss

	2022	2021
Financial assets at fair value through profit or loss	314	316
Total	**314**	**316**

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

	2022	2021
Cash in hand and at banks	12 922	32 453
Total	**12 922**	**32 453**

22. Equity

	Number of shares	Share capital	SVOP - Reserve for invested unrestricted equity	Total
31 December 2020	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	249 509			
Outstanding shares on 31 Dec.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 Dec.2021	**87 159 445**			
31 December 2022	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	28 123			
Outstanding shares on 31 Dec.2022	**87 311 287**			

Shares and share capital

At balance sheet date, the number of shares totalled 87,339,410, of which the company holds 28,123 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 2022, with the authorization given by the Annual General Meeting held on May 28, 2021, the company carried out a directed share issue without consideration, 151,842 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 IPO, have been recorded to invested non-restricted equity reserve.

Share-based compensations

On 20 December 2016, The Board of Directors of Lehto Group Plc 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 2020-2021 correspond to the value of an approximate maximum total of 1,600,000 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 2022 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2019 of the long-term incentive plan adopted by Lehto in 2019. In the share issue 151,842 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 0.17 per cent of Lehto's shares and votes prior to the share issue. For the earning period 2020, the performance bonus for members of the share plan was EUR 193,000, which converted into 103,782 shares. For the earning period 2021 the performance bonus for members of the share plan was EUR 15,000, converted to shares 52,000.

In 2022 The Board of Directors did not decide on a new share-based incentive plans program and thus no performance bonuses will be paid as shares from year 2022.

	Earning period	
Arrangement	*2020*	*2021*
Nature of arrangement	Shares	Shares
Date of issue	20 Feb 2020	18 Feb 2021
Number of instruments issued (issued-adjusted)	103,782	52,000
Share price on grant date (issued-adjusted)	1.89	1.59
Period of validity	3 years	3 years
Expected performance, %	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
Carried out	As shares	As shares

For the 2020 and 2021 earnings periods, the earnings-based terms have been met in full. 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.

In addition to long-term incentive plan, the Company has 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. In year 2022, there were no employee in restricted share plan.

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 2022.

23. Provisions

Provisions 2022	**Guarantee provisions**	**Onerous projects**	**Restructuring provision**	**Total**
1 Jan. 2022	10 307	11 083	638	22 028
Increases	4 515	1 951		6 466
Decreases	-3 600	-10 716		-14 316
Decreases, discontinued operations	-150		-510	-660
31 Dec. 2022	**11 072**	**2 317**	**128**	**13 518**
of which non-current	5 928			5 928
of which current	5 144	2 317	128	7 590

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**
of which non-current	5 689			5 689
of which current	4 618	11 083	638	16 340

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

	2022	2021
Non-current loans from financial institutions	9	3 033
Non-current instalment debts		99
Convertible bonds	11 661	
Non-current lease liabilities	68 405	
Total	**80 075**	**91 302**

	2022	2021
Current loans from financial institutions	13 033	30 067
Current instalment debts		8
VAT loan arrangement with the Tax Administration		5 255
Debts on shares in unsold housing and real estate company shares in progress	3 979	4 647
Debts on shares in unsold housing and real estate company shares completed	5 184	2 724
Current lease liabilities	9 442	2 275
Total	**31 637**	**44 976**
Financial liabilities, total	**111 712**	**136 278**

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

Financial liabilities 2022	Non-current financial liabilities	Current financial liabilities	Total
1 Jan. 2022	91 302	44 976	136 278
Changes during the period:			
Cash flows	7 553	-20 058	-12 505
Non-cash flows	-18 779	4 928	-13 851
Unsold housing and real estate company shares completed		1 791	1 791
31 Dec. 2022	**80 075**	**31 637**	**111 712**

Financial liabilities 2021	Non-current financial liabilities	Current financial liabilities	Total
1 Jan. 2021	41 484	72 189	113 673
Changes during the period:			
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**

Non-cash flow items are mainly related to lease liabilities.

Convertible bonds

In June 2022 Lehto Group Plc announced the launch of an offering of unsecured convertible bonds due June 2027 convertible into new and/or existing ordinary shares of Lehto to institutional and other qualified investors. The convertible bonds were issued in an aggregate initial principal amount of EUR 15 million between June and September 2022. The contemplated transaction aimed to improve the financing position of the Company and to facilitate the Company's bank financing arrangement, and the proceeds from the Convertible Bonds will be used for general corporate purposes.

Terms of convertible bonds

The convertible bonds will be issued at 100% of their principal amount of EUR 20,000 per bond, and unless previously converted, repurchased or redeemed, it will be redeemed at par at maturity with accrued interest. PIK interest of 4% will be added to the interest payable at maturity in accordance with the terms and conditions of the convertible bonds. The convertible bonds carry a coupon of 6% per annum payable semi-annually, with the first interest payment date being December 31, 2022. In accordance with the terms of the convertible bond, PIK interest, which is 4 percent per year for the loan period, will be paid on the loan maturity date for the loan portion not exchanged on the maturity date. The initial conversion price was EUR 0.40 per share, which corresponds the closing price of the company's share on the stock exchange of Nasdaq Helsinki Ltd. on June 28, 2022. The conversion price will be subject to adjustments for any dividends in cash or in kind, as well as customary anti-dilution adjustments, pursuant to the terms and conditions of convertible bonds. The terms and conditions of the convertible bonds are available in full on the company's website in English.

Proceeds from issue of convertible bonds	15 000
Transaction costs	-708
Net proceeds	*14 292*
The equity component separated from the convertible bond before taxes	-2 789
Accreted interest	158
Convertible bonds on 31 Dec. 2022	**11 661**

25. Trade payables and other non-interest-bearing liabilities

Non-current non-interest-bearing liabilities	**2022**	**2021**
Non-current non-interest-bearing liabilities	206	115
Total	**206**	**115**

Current non-interest-bearing liabilities	**2022**	**2021**
Liabilities to customers for constructing contracts (advances received)		
From projects where revenue recognised over time	12 165	12 240
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estate shares in progress	3 530	6 292
Debts on shares in sold housing and real estate shares in progress	4 039	1 919
Other liabilities to customers for constructing contracts	858	86
Trade payables	24 820	46 040
Other liabilities		
Liabilities paid to the Tax Administration	10 638	9 762
Other liabilities	4 714	5 119
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	6 855	10 928
Income tax debt	0	3
Other adjusting entries for liabilities	7 612	13 154
Total	**75 230**	**105 544**

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 2022, the cash and cash equivalents amounted to EUR 12.9 million (EUR 32.5 million 31 December 2021) 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 2022 was EUR 13.0 million, which all was in use.

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

Revolving Credit Facility

On 30 June 2022, Lehto signed an agreement for a new Revolving Credit Facility (RCF) with OP Corporate Bank plc and Nordea Bank Plc. The RCF amounts to EUR 13 million and is valid until 31 March 2024. The entire credit facility was in use at the end of the review period. The RCF includes securities, financial covenants related to EBITDA and minimum cash requirements, restriction on dividend payouts while the agreement is in force, and conditions related to the company's operations and the constitution and chairman of the Board of Directors.

Not all of the covenant terms for the RCF were met at the end of the review period, and on the date when the Financial Statements were signed, the company had permission from the banks to temporarily exceed the covenant limits set in the agreement.

Net liabilities	**2022**	**2021**
Interest-bearing liabilities	33 865	45 832
Cash and cash equivalents and interest-bearing receivables	-13 236	-32 769
Net liabilities without IFRS lease liabilities	**20 630**	**13 063**
Lease liabilities	77 847	90 445
Net liabilities	**98 477**	**103 509**
Equity, total, EUR 1,000	66 571	90 938
Gearing	107.7%	100.6%
Net gearing ratio	147.9%	113.8%

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 was 22 months and the first instalment was paid in September 2020. The interest rate on the payment arrangement was 2.5%. The payment arrangement loan was fully paid off during 2022.

Foreign exchange risk

The Group's functional currency is euro. At the balance sheet date the Group had no significant liabilities or receivables denominated in foreign currency. 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.

Interest rate risk

Interest rate risk arises mainly from loans with variable interest rates. Due to the low amount of long-term liabilities with variable interest rates, the interest rate risk related to these balance sheet items is not very significant for the Group. As far as possible, the Group can change the interest rate fixation period of the loan portfolio by arranging the loan portfolio, using interest rate swaps or other derivatives. The degree of protection can vary between 0 and 100 percent. The company monitors the interest rate risk of the loan portfolio and can change its fixed interest period if necessary.

Sensitivity analysis for loans with floating rates	**2022**		**2021**	
Change, %	+1%	-1%	+1%	-1%
Impact on profit/loss after taxes	-104	104	-25	25

Credit risk

The most significant credit risk for the Group consists of trade receivables and receivables from customers based on customer agreements. However, these do not involve significant credit risk accumulations. Apartments are not handed over to the customer until all trade receivables have been paid. However, credit losses totalling EUR 0.9 million have been recorded in the accounting period. The majority of this relates to one credit loss, the amount of which is EUR 0.7 million. The ageing analysis of accounts receivable and the solvency of the most significant customers are monitored at Group level and in group companies. Credit risk is also managed by granting customers only standard payment terms and customer-specific consideration, using preferential payment terms typical for the industry and reselling the credit risk to financial institutions. The payment terms used in the Group currently vary from 7 to 45 days, of which the most typical payment term is 30 days. In addition, for individual projects, a longer payment term can be agreed upon, where the payment will be made in one instalment upon handover of

the project. 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

Liquidity risk is managed by maintaining sufficient infrastructure for financing planning and monitoring as well as cash management and cash forecasting. The company's liquidity consists of available cash and credit limits. The company had no undrawn credit limits at the end of the financial year. Liquidity risk has also been taken into account in the assessment of business continuity. The evaluation of the continuity of operations is described in more detail in the section of the preparation principles, Continuity of operations.

Analysis of debt maturity

31 Dec. 2022	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	22 376	9		22 384
Convertible bonds	900	24 647		25 547
Lease liabilities	8 380	14 303	115 995	138 678
Trade payables and other non-interest-bearing liabilities	40 172	206		40 378

31 Dec. 2021	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	43 213	3 149		46 362
Lease liabilities	4 064	13 531	126 316	143 911
Trade payables and other non-interest-bearing liabilities	60 921	115		61 036

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 and to increase shareholder value and returns for shareholders in the best possible way. Improving the capital structure ensures 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 2022	Inventories	Property, plant and equipment	Lease liabilities
1 Jan. 2022	86 620	3 732	90 445
Increases	35 952	1 512	40 087
Decreases	-50 012	-464	-50 493
Depreciation / instalments	-1 664	-1 288	-2 193
31 Dec. 2022	**70 897**	**3 492**	**77 847**

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**

Interest expenses related to lease liabilities in 2022 amounted to EUR 2,154 thousand (EUR 1,701 thousand in 2021). Interest expenses on lease liabilities are presented in financial expenses in the notes under "Financial income and expenses".

EUR 1,102 (1,166) 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 (maximum 12 months) rents for tool, machine and site facilities related

to the construction industry. The total cash flow leases amounted to EUR 2,467 (2,370) thousand and from land leases to EUR 3,957 (3,802) 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.

28. Liabilities and guarantees

Loans covered by pledges on assets	2022	2021
Loans from financial institutions	13 042	4 671
Debts on shares in unsold housing company shares	9 162	7 371
Total	**22 204**	**12 043**

Guarantees	2022	2021
Company mortgages	135 200	
Real-estate mortgages	213 540	9 380
Pledges	13 285	7 738
Absolute guarantees	214	299
Total	**362 239**	**17 417**

Contract guarantees	2022	2021
Production guarantees	27 223	61 802
Warranty guarantees	15 588	17 954
RS guarantees	20 157	21 880
Payment guarantees	2 360	1 629
Total	**65 328**	**103 266**

Liability to adjust value added tax (VAT) on property investments	2022	2021
Liability to adjust VAT	1 540	1 899

Absolute guarantees include lease guarantees given on behalf of Group companies. These leased premises are used by a subsidiary to conduct operational business. The 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.

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%
Lehto Components Oy	Finland	100%	100%
Insinööritoimisto Mäkeläinen Oy	Finland	100%	100%
Lehto Korjausrakentaminen Oy	Finland	100%	100%
Katajanokka Holding 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%

During the fiscal year Lehto Group Plc has sold its subsidiary Remonttipartio Oy. More information in Note "Discountinued operations".

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

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

30. 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 their families and entities on which related

parties, or their family members, 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 2022	Sales 2021	Purchases 2022	Purchases 2021
Key personnel and their controlled entities	5 151	36 693	9 067	7 396
Total	**5 151**	**36 693**	**9 067**	**7 396**

	Receivables 31 Dec. 2022	Receivables 31 Dec. 2021	Liabilities 31 Dec. 2022	Liabilities 31 Dec. 2021
Key personnel and their controlled entities	730	5 098	154	794
Total	**730**	**5 098**	**154**	**794**

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, EUR 4.2 million, to related parties consists of the sale of business premises to Lindström Oy. Anne Korkiakoski is the member of the Board in Lindström Oy.

Purchases from related parties mainly consist of the rental of work machines and equipment from Lehto Invest Oy, a company controlled by the member of the Board Hannu Lehto. These purchases amounted to EUR 5.4 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 148 thousand. In addition, Lehto purchases building technology design and maintenance services from Elvak Oy, which is a company controlled by the member of the Board Hannu Lehto's son. The amount of these purchases was EUR 3.4 million.

Management salaries and remuneration	2022	2021
Chief Executive Officer, CEO		
Juuso Hietanen (since May 1, 2021)	398	263
Hannu Lehto (until April 30, 2021)		59
Other management team	997	1 063
Share incentives	243	0
Post-employment benefits, statutory pension contribution paid by the employer	290	239
Total	**1 928**	**1 624**

Members of the Board of Directors	2022	2021
Eero Sihvonen, chairman (as member May 2 - Dec 5, 2022, as chairman since Dec 5, 2022)	37	
Hannu Lehto, (as chairman May 28, 2021 - Dec 5, 2022, as member since Dec 5, 2022)	91	65
Anne Korkiakoski	48	43
Helena Säteri	46	41
Jani Nokkanen (since May 28, 2021)	46	32
Raimo Lehtiö (until May 2, 2022)	12	41
Seppo Laine (chairman until May 28, 2021 and as member until May 2, 2022)	13	51
Mikko Räsänen (until May 28, 2021)		10
Total	**294**	**282**

Income statement for parent company, FAS

	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Net sales	8 580	9 253
Other operating income	235	0
Personnel expenses		
Salaries and fees	-3 468	-3 860
Personnel expenses		
Pension costs	-541	-622
Indirect employee costs	-91	-145
Depreciation according to plan	-803	-1 018
Other operating expenses	-5 445	-4 450
Operating result	**-1 533**	**-841**
Financial income and expenses		
Income from holdings in Group companies	4 690	25
Interest and other financial income		
From Group companies	1 123	513
From others	3	16
Amortisation from other investments held as non-current assets	-21 040	-17 346
Interest and other financial expenses		
To Group companies	-3	-4
To others	-2 787	-1 679
Financial income and expenses, total	*-18 014*	*-18 473*
Result before appropriations and taxes	**-19 547**	**-19 315**
Result for the financial year	**-19 547**	**-19 315**

Balance sheet for parent company, FAS

ASSETS	31 Dec 2022	31 Dec 2021
Non-current assets		
Intangible assets	811	1 510
Machinery and equipment	3	10
Holdings in Group companies	48 263	66 303
Other shares and investments	957	757
Non-current assets, total	**50 033**	**68 580**
Current assets		
Inventories	83	83
Non-current receivables		
Receivables from Group companies	3 100	685
Loan receivables	56	56
Current receivables		
Trade receivables		1
Receivables from Group companies	44 777	28 005
Other receivables	2 227	11
Adjusting entries for assets	394	228
Financial securities	314	316
Cash and cash equivalents	11 993	30 005
Current assets, total	**62 944**	**59 391**
ASSETS TOTAL	**112 977**	**127 971**

EQUITY AND LIABILITIES	31 Dec 2022	31 Dec 2021
Equity		
Share capital	100	100
SVOP - Reserve for invested unrestricted equity	91 655	91 655
Retained earnings	-24 406	-5 091
Result for the financial year	-19 547	-19 315
Equity, total	**47 803**	**67 350**
Liabilities		
Non-current liabilities		
Convertible bonds	15 000	
Non-current liabilities, total	***15 000***	
Current liabilities		
Loans from financial institutions	13 000	25 137
Trade payables	285	413
Liabilities to Group companies	35 746	33 948
Other liabilities	285	330
Adjusting entries for liabilities	859	794
Current liabilities, total	***50 174***	***60 621***
Liabilities, total	**65 174**	**60 621**
EQUITY AND LIABILITIES TOTAL	**112 977**	**127 971**

Cash flow statement for the parent company, FAS

	31 Dec 2022	31 Dec 2021
Cash flow from operating activities		
Result for the financial year	-19 547	-19 315
Adjustments:		
Depreciation according to plan and impairment	803	1 018
Gain on sale of non-current assets	1 148	0
Non-cash items	19 838	17 346
Financial income and expenses	-3 026	1 128
Changes in working capital:		
Change in trade and other receivables	-2 367	10 109
Change in trade and other payables	-162	-315
Interest paid and other financial expenses	-2 520	-1 779
Interests received from operations	1 185	437
Dividends received from operations	4 677	
Net cash from operating activities	**29**	**8 629**
Cash flow from investments		
Investments in intangible and tangible assets	-97	-375
Proceeds from sale of intangible and tangible assets	54	0
Investments in other investments	-200	
Proceeds from sale of investments	31 539	
Repayment of loan receivables	381	986
Loans granted	-3 000	-227
Net cash from investments	**28 676**	**384**

	31 Dec 2022	31 Dec 2021
Cash flow from financing		
Loans drawn	28 000	
Loans repaid	-25 220	-14 055
Change in Group financing	-49 500	-69 603
Group contribution		1 451
Net cash used in financing activities	**-46 720**	**-82 207**
Change in cash and cash equivalents (+/-)	**-18 015**	**-73 194**
Cash and cash equivalents at the beginning of the financial year	30 321	103 515
Cash and cash equivalents at the end of the financial year	**12 306**	**30 321**

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.

Investments in non-current assets are valued at the purchase price or the lower income likely to accrue in the future. The valuation of the subsidiary shares' financial statements on 31 December 2022 is based on long-term forecasts and calculations prepared at the group level.

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	**2022**	**2021**
Group internal service charges	8 405	9 222
Other net sales, internal	1	15
Other net sales, external	174	15
Total	**8 580**	**9 253**

Fees paid to auditor:	**2022**	**2021**
Statutory auditing	95	64
Certificates and statements	5	2
Tax services	1	1
Other services	0	9
Total	*100*	*78*

Financial income and expenses	**2022**	**2021**
Dividend income from Group companies	4 690	25
Interest income from Group companies	1 123	513
Interest income from others	3	16
Amortisation from other investments held as non-current assets	-21 040	-17 346
Interest costs on intra-Group liabilities	-3	-4
Interest costs to others	-1 406	-1 462
Other financial expenses	-1 380	-216
Total	**-18 014**	**-18 473**

Taxes	**2022**	**2021**
Current taxes		0
Total		**0**

Intangible rights	**2022**	**2021**
Acquisition cost at 1 Jan.	1 265	1 265
Increases	7	0
Acquisition cost at 31 Dec.	**1 272**	**1 265**
Accumulated depreciation at 1 Jan.	-1 204	-995
Depreciation and amortisation	-58	-210
Accumulated depreciation at 31 Dec.	**-1 263**	**-1 204**
Book value at 1 Jan.	61	271
Book value at 31 Dec.	**10**	**61**

Other long-term expenditure	2022	2021
Acquisition cost at 1 Jan.	3 223	3 080
Increases	215	143
Acquisition cost at 31 Dec.	**3 438**	**3 223**
Accumulated depreciation at 1 Jan.	-2 005	-1 325
Depreciation and amortisation	-738	-679
Accumulated depreciation at 31 Dec.	**-2 743**	**-2 005**
Book value at 1 Jan.	1 218	1 754
Book value at 31 Dec.	**695**	**1 218**

Advanced payments for intangible assets	2022	2021
Acquisition cost at 1 Jan.	231	0
Increases		231
Decreases	-124	
Acquisition cost at 31 Dec.	**107**	**231**
Book value at 1 Jan.	231	0
Book value at 31 Dec.	**107**	**231**

Machinery and equipment	2022	2021
Acquisition cost at 1 Jan.	1 265	1 264
Increases	0	1
Acquisition cost at 31 Dec.	**1 265**	**1 265**
Accumulated depreciation at 1 Jan.	-1 256	-1 127
Depreciation and amortisation	-7	-129
Accumulated depreciation at 31 Dec.	**-1 263**	**-1 256**
Book value at 1 Jan.	9	136
Book value at 31 Dec.	**2**	**9**

Other tangible assets	2022	2021
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	2022	2021
Acquisition cost at 1 Jan.	84 501	82 550
Increases	34 738	1 951
Decreases	-32 741	0
Acquisition cost at 31 Dec.	**86 498**	**84 501**
Accumulated amortisation at 1 Jan.	-17 441	-95
Amortisation	-19 838	-17 346
Accumulated amortisation at 31 Dec.	**-37 279**	**-17 441**
Book value at 1 Jan.	67 060	82 454
Book value at 31 Dec.	**49 219**	**67 060**

Non-current receivables from Group companies	2022	2021
Loan receivables	3 100	685
Total	**3 100**	**685**

Current receivables from Group companies	2022	2021
Trade receivables	8	15
Loan receivables	24	24
Other receivables	397	509
Group limit	44 348	27 458
Total	**44 777**	**28 005**

Essential items included in adjusting entries for assets	2022	2021
Other adjusting entries for assets	394	228
Total	**394**	**228**

	2022	2021
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	**100**	**100**
SVOP - Reserve for invested unrestricted equity	91 655	91 655
Invested non-restricted equity reserve at 31 Dec.	**91 655**	**91 655**
Retained earnings at 1 Jan.	-24 406	-5 091
Retained earnings from previous year	-19 547	-19 315
Retained earnings at 31 Dec.	**-43 953**	**-24 406**
Equity, total	**47 803**	**67 350**

Statement of distributable funds	2022	2021
Invested non-restricted equity reserve	91 655	91 655
Retained earnings	-24 406	-5 091
Result for the financial year	-19 547	-19 315
Total	**47 703**	**67 250**

Liabilities to Group companies	2022	2021
Trade payables	119	11
Other payables	34 300	0
Group limit	1 327	33 936
Total	**35 746**	**33 948**

Essential items included in adjusting entries for liabilities	2022	2021
Holiday pay debt with related costs	337	475
Non-wage labour cost debt	163	205
Interest debt	358	114
Total	**859**	**794**

Guarantees and contingent liabilities

Loans covered by pledges on assets	2022	2021
Loans from financial institutions	13 000	25 137
Total	**13 000**	**25 137**

Guarantees	2022	2021
Corporate mortgages	33 800	
Real-estate mortgages	33 800	
Pledges	46 816	32 741
Production guarantees	374	3 049
Absolute guarantees	214	214
Total	**115 005**	**36 004**

Amount of credit limits	2022	2021
Credit limits available	13 001	25 149
Credit limits in use	13 001	25 149
Credit limits outstanding	**0**	**0**
Guarantee limits available	88 166	105 451
Guarantee limits in use	63 224	98 573
Guarantee limits outstanding	**24 942**	**6 878**

Guarantees given on behalf of other Group companies	2022	2021
Pledges	451	
Guarantees given and other commitments	20 532	10 339
Total	**20 983**	**10 339**

Leasing agreements not included in balance sheet	2022	2021
Expiring in 12 months	38	37
Expiring in more than 12 months	42	31
Total	**80**	**69**

Lease liabilities	2022	2021
Construction leases, expiring in 12 months	751	1 116
Construction leases, expiring in more than 12 months	2 287	1 593
Total	**3 037**	**2 710**

Average number of company personnel at the end of the financial year	2022	2021
Salaried employees	45	63
Total	**45**	**63**

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

The parent company's distributable funds on the balance sheet of 31 December 2022 are EUR 47,702,699.67, of which the result for the financial year is EUR -19,547,063.98.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the 1 January–31 December 2022 financial year.

Signatures to the Annual Report and Financial Statements

Vantaa, 14 February 2023

Eero Sihvonen
Chairman of the Board of Directors

Hannu Lehto
Member of the Board of Directors

Anne Korkiakoski
Member of the Board of Directors

Helena Säteri
Member of the Board of Directors

Jani Nokkanen
Member of the Board of Directors

Juuso Hietanen
CEO

The Auditor's Note

A report on the audit performed has been issued today.

Oulu, 14 February 2023

KPMG Oy Ab
Audit firm

Pekka Alatalo
APA

Group key figures

	2022	2021 [1]	2020 [2]	2019 [3]	2018 [3]
Net sales, EUR million	344,8	404,1	544,7	667,7	721,5
Net sales, change from the previous year %	-14,7 %	-21,8 %	-18,2 %	-7,5 %	20,7 %
Operating result, EUR million	-42,2	-28,3	0,1	-41,8	37,2
Operating result, as % of net sales	-12,2 %	-7,0 %	0,0 %	-6,3 %	5,2 %
Result for the financial year from continuing operations, EUR million	-58,8	-29,9	-5,1	-35,7	28,7
Result for the financial year from discontinued operations, EUR million	32,1	-2,7	-3,1	-	-
Result for the financial year, EUR million	-26,7	-32,6	-8,2	-35,7	28,7
Result for the financial year, as % of net sales	-7,7 %	-8,1 %	-1,5 %	-5,4 %	4,0 %
Return on equity (ROE), %	-33,8 %	-30,4 %	-7,0 %	-26,0 %	18,3 %
Return on investments (ROI), %	-20,8 %	-12,1 %	0,1 %	-14,3 %	16,1 %
Equity ratio, %	27,0 %	27,2 %	38,7 %	29,6 %	42,7 %
Gearing, %	107,7 %	100,6 %	40,0 %	49,9 %	21,3 %
Net gearing ratio, %	147,9 %	113,8 %	7,0 %	115,9 %	38,5 %
Order backlog, EUR million	205,9	444,2	426,3	481,8	655,6
Gross expenditure on assets, EUR million	0,8	1,2	2,0	7,7	15,9
Personnel during the year, average	860	1 043	1 115	1 454	1 457
Personnel at Dec 31	664	1 042	1 034	1 274	1 552
Equity / share	0,76	1,04	1,42	1,59	2,30
Earnings per share, issued-adjusted, EUR, basic	-0,31	-0,37	-0,12	-0,51	0,41
Earnings per share, issued-adjusted, EUR, diluted	-0,31	-0,37	-0,12	-0,51	0,41
Average number of shares during the year, issued-adjusted, basic	87 276 343	87 142 297	71 012 014	70 597 352	70 541 661
Average number of shares during the year, issued-adjusted, diluted	87 433 988	87 447 100	71 330 955	70 752 453	70 698 904
Number of shares, issue-adjusted, at the end of the year	87 311 287	87 159 445	87 089 901	70 612 735	70 541 661
Market value of share at Dec 31, EUR million	15,0	75,0	117,6	137,0	247,6
Share turnover, issue-adjusted, shares	45 210 912	68 750 986	45 969 542	54 836 449	51 905 771
Share turnover out of average number of shares, %	51,8 %	78,9 %	64,7 %	77,7 %	73,6 %
Share prices, issued-adjusted, EUR					
Highest price, EUR	0,94	2,31	2,17	4,40	11,71
Lowest price, EUR	0,17	0,72	0,98	1,22	3,32
Average price, EUR	0,51	1,35	1,37	2,20	7,54
Price at Dec 31, EUR	0,17	0,86	1,35	1,94	3,51
Dividend / share, issue-adjusted, EUR [4]	-	-	-	-	0,20
Issue-adjusted dividend payout ratio, % [4]	-	-	-	-	48,7 %
Effective dividend yield %	-	-	-	-	5,6 %
Price / Earnings	-0,56	-2,30	-11,70	-3,83	8,64

[1] Restated according to pipeline operations as discontinued operations
[2] Restated according to Swedish operations as discontinued operations
[3] Share-based key figures are issue-adjusted due share issue in 2020
[4] Year 2022 dividend proposal

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

Key figures used by the company are well-known figures, which are mainly derived from the result and balance sheet. Alternative performance measures may not be considered as a substitute for measures of performance in accordance with the IFRS.

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

Shares and shareholders

At balance sheet date, the number of shares is 87,339,410. Outstanding number of shares is 87,311,287 and the company held 28,123 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 2022

	Number of shares	%
Lehto Invest Oy	33,914,760	38.83%
Kinnunen Mikko	1,326,454	1.52%
Mevita Invest Oy	1,286,867	1.47%
Nordea Henkivakuutus Suomi Oy	1,026,200	1.18%
Saartoala Ari	1,011,839	1.16%
OP-Henkivakuutus Oy	742,793	0.85%
J & K Hämäläinen Oy	700,000	0.80%
Lindsay von Julin & Co Ab	700,000	0.80%
Tuuli Markku	579,000	0.66%
Paloranta Veli-Pekka	501,653	0.57%
10 LARGEST SHAREHOLDERS	**41,789,566**	**47.85%**
Nominee-registered	1,116,362	1.34%
Other shareholders	44,383,482	50.82%
TOTAL	**87,339,410**	**100.0%**

Shareholding breakdown

	Number of shares	%	Number of share-holders	%
1 - 100	193,138	0,2 %	4 160	24,6 %
101 – 1,000	3,259,391	3,7 %	7 571	44,9 %
1,001 – 10,000	14,567,280	16,7 %	4 370	25,9 %
10,001 – 100,000	19,564,129	22,4 %	728	4,3 %
100,001 – 1,000,000	11,189,352	12,8 %	47	0,3 %
over 1,000000	38,566,120	44,2 %	5	0,0 %
TOTAL	**87,339,410**	**100,0 %**	**16 881**	**100,0 %**
where of Nominee-registered	1,166,362	1,3 %	9	5,0 %

Shareholdings by sector

	Number of shares	%	Number of share-holders	%
Companies	43,151 028	49.4%	622	3.7%
Financial and insurance institutions	2,687 343	3.1%	12	0.1%
Public sector organizations	27,410	0.0%	2	0.0%
Households	40,562,833	46.4%	16,183	95.9%
Non-profit organizations	63,080	0.1%	17	0.1%
Foreign countries	847,716	1.0%	36	0.2%
TOTAL	**87,339,410**	**100.0%**	**16,881**	**100.0%**
where of Nominee-registered	1,166,362	1.3%	9	0.1%

LEHTO

Auditor’s Report 2022

Lehto Group Plc

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report 2022

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 2022. 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)

The key audit matter

- 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.

How the matter was addressed in the audit

- 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)

The key audit matter

- The inventory balance comprises 64 % 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.

How the matter was addressed in the audit

- 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)

The key audit matter

- As disclosed in note 26, the company has a credit facility agreement, of which EUR 13.0 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. On the date of signing the financial statements the company has obtained a waiver from creditors to temporarily exceed the covenant limits set in the agreement.
- 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 actions to ensure sufficient financing and the 2023 business plan.

How the matter was addressed in the audit

- We analyzed the business plans and cash flow estimates prepared by the company to be able to assess the sufficiency of financing.

- We inspected the financing arrangements which have been completed during the financial year 2022 and their accounting treatment.
- 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.

Subsidiary shares in the parent company's balance sheet

(Refer to parent company balance sheet, accounting principles for the financial statements and notes)

The key audit matter

- The carrying amount of the subsidiary shares in the parent company's balance sheet amounted to EUR 48.3 million after the impairment of EUR 19.8 million recorded as at 31 December 2022. The parent company's intra-group receivables totaled EUR 44.8 million and intra-group liabilities EUR 35.7 million.
- The valuation of subsidiary shares and intra-group receivables are highly dependent on the Group's business model and cash flow in the future.
- The carrying amount of the subsidiary shares is considered as part of the Group's impairment testing in which cash flow projections are prepared for the Group's cash-generating units. Due to high level of judgment incorporated in respect of the future cash flows and the significant carrying amounts involved, valuation of subsidiary shares is considered as one of the key audit matters.

How the matter was addressed in the audit

- We evaluated the appropriateness of the impairment tests for subsidiary shares as well as the impairment recorded on the subsidiary shares in the parent company's balance sheet.
- In respect of the impairment tests, we evaluated the estimated cash flows for future years used in the impairment tests as prepared by management, and the key assumptions underlying the tests such as the profitability, the discount rate and the estimated long-term growth.

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 10 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, 14 February 2023
KPMG Oy Ab

Pekka Alatalo
Authorised Public Accountant, KHT

Corporate Governance Statement 2022

Lehto Group Plc

Corporate Governance Statement 2022

1. 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 14 February 2023, 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 is published on Lehto Group's website at **www.lehto.fi/en/investors/corporate-governance/**.

2. 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 (6) 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 General Meeting of Shareholders elects the members of the Board of Directors. By virtue of the Company's Articles of Association, the Company has a Board of Directors which consists of three to eight (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 and is responsible for the appropriate arrangement of the control of the Company's accounts and finances. 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 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 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 (2) 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 2 May 2022 consisted of Eero Sihvonen, Hannu Lehto, Anne Korkiakoski, Helena Säteri and Jani Nokkanen. Hannu Lehto has acted as Chairman of the Board of Directors until 5 December 2022, after which Eero Sihvonen has been the Chairman of the Board of Directors. During the financial year 2022, the Board of Directors had a total of 26 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
Eero Sihvonen [1]	Chairman of the Board of Directors	1957	M.Sc. (Econ.)	Yes	Yes
Hannu Lehto [2]	Member of the Board of Directors	1963	Construction engineer	No	No
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
Jani Nokkanen	Member of the Board of Directors	1977	M.Sc. (Econ.)	Yes	Yes
Until the end of the Annual General Meeting on 2 May 2022:					
Seppo Laine	Member of the Board of Directors	1953	APA	Yes	Yes
Raimo Lehtiö	Member of the Board of Directors	1957	M.Sc. (Tech.), MBA	Yes	Yes

[1] Member of the Board of Directors since the Annual General Meeting 2 May 2022 and the Chairman of the Board of Directors since 5 December 2022.

[2] Chairman of the Board of Directors until 5 December 2022 and a Member of the Board of Directors after since.

BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES 31 DECEMBER 2022

Name	No. of shares held	Shareholding ratio
Eero Sihvonen	32,073	0.04%
Hannu Lehto	135,449	0.16%
Lehto Invest Oy A company controlled by the person	33,914,760	38.84%
Anne Korkiakoski	89,320	0.10%
Helena Säteri	54,698	0.06%
Jani Nokkanen	40,475	0.05%
Board of Directors in total	**34,179,622**	**39.15%**

REMUNERATION OF THE MEMBERS OF THE BOARD (INCLUDING REMUNERATION OF AUDIT COMMITTEE) AND ATTENDANCE IN MEETINGS 2022

Name	Remuneration, paid as shares, EUR	Remuneration, paid as cash, EUR	Board and Committee meeting remunerations, EUR	Attendance in Board meetings
Eero Sihvonen [1]	13,800	15,525	7,950	16/16
Hannu Lehto [2]	27,600	43,125	20,350	26/26
Anne Korkiakoski	13,800	22,425	11,750	26/26
Helena Säteri	13,800	22,425	9,750	26/26
Jani Nokkanen	13,800	22,425	9,750	26/26
Until the end of the Annual General Meeting on 2 May 2022:				
Seppo Laine		8,625	4,550	10/10
Raimo Lehtiö		8,625	3,750	10/10
Board of Directors in total	**82,800**	**143,175**	**67,850**	**100%**

[1] Member of the Board of Directors since the Annual General Meeting 2 May 2022 and the Chairman of the Board of Directors since 5 December 2022.

[2] Chairman of the Board of Directors until 5 December 2022 and a Member of the Board of Directors after since.

Presentation of Board members

Eero Sihvonen has served as a Member of the Board since the 2022 Annual General Meeting, and as Chairman of the Board since 5 December 2022. Sihvonen has previously served as the Chief Financial Officer for 16 years and also over 10 years as the Executive Vice President of Citycon Plc. His strengths are especially in real estate and other business strategy, financial and financial matters. Sihvonen has previously been a member of RAKLI Ry's board of directors for several years. Sihvonen holds the degree of M.Sc. (Econ.).

Hannu Lehto has been a member of the Board of Directors since the Annual General Meeting on 2 May 2022 and the Chairman of the Board of Directors since the Annual General Meeting 2022 until 5 December 2022. 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 been involved in operation on the Company's and its subsidiaries for over 35 years. Lehto holds the degree of Construction engineer.

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 Oy, EcoUp Oyj, Edita Group Plc, Lunaholder Ltd and Vuoristo-yhtiöt Oy. 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 worked within construction for 40 years, been engaged with board working for more than 15 years, and acted in the state's corporate governance for more than 10 years. Most recently she has held the position of a Director General of the Ministry of the Environment. Säteri serves in the Board of Directors of Tapiolan Lämpö Oy and Olarin Huolto Oy. Säteri holds the degree of M.Sc. (Technology).

Jani Nokkanen has been a member of the Board of Directors since Annual General Meeting 2021. Currently Nokkanen is working as the CIO and Partner and member of the Board of Directors of NREP Oy 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. Nokkanen holds the degree of M.Sc. (Econ.).

The memberships of the Board of Directors that ended

Seppo Laine was member of the Board of Directors from 2019 until the end of Annual General Meeting 2022.

Raimo Lehtiö was member of the Board of Directors from 2020 until the end of Annual General Meeting 2022.

Statement on the implementation of the Board Diversity Policy 2022

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.

The defined diversity goal is well implemented in the Board of Directors. The Board comprises members that have knowledge in commerce, 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 (3) 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 Company's business operations and business segments and sufficient knowledge of accounting and accounting policies. In its organisational meeting on 2 May 2022, the Board of Directors elected Eero Sihvonen (Chairman), Anne Korkiakoski 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. On 5 December 2022, after Eero Sihvonen became Chairman of the Board of Directors, the Board elected Anne Korkiakoski as the new chairman of the Audit Committee, and Eero Sihvonen and Hannu Lehto continued as members of the Committee.

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 2022, the Audit Committee had four (4) 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 Nomination Committee shall comprise the representatives of the three (3) 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 (1) 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 Nomination 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 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 Nomination 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 the Nomination 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 2022 the Nomination Committee consisted of Anne Lehto (Lehto Invest Oy), Mikko Kinnunen ja Ari Saartoala.

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 holds the degree of M.Sc. (Eng.).

At the end of the financial period 2022 Juuso Hietanen owns directly or indirectly 295,367 shares of the Company which are 0,34 per cent of the Company's shares.

Group's executive team from left to right: Veli-Pekka Paloranta, Matti Koskela, Jani Pentti, Juuso Hietanen, Timo Reiniluoto, Jukka Haapalainen, Tero Karislahti

Group's executive team

The CEO is supported by the Group's executive team which on 31 December 2022 consists of, in addition to CEO:

- ***Veli-Pekka Paloranta***, CFO, Chief Financial Officer
- ***Matti Koskela***, EVP, Business Premises
- ***Tero Karislahti***, EVP, Housing
- ***Timo Reiniluoto***, EVP, Business Support Services
- ***Jukka Haapalainen***, EVP, Factory Production
- ***Jani Pentti***, Vice President, Human Resources

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 M. of Sc. (Econ.).

Matti Koskela, born 1966, has acted as EVP, Business Premises since beginning of year 2022. Since 1994, he has worked as a foreman and responsible foreman and as a work manager in construction site production. Since 2001, he has worked in the management positions of residential and office construction and renovation construction as unit manager, business group manager and division manager for a construction company YIT. Koskela holds the degree of Civil engineer.

Tero Karislahti, born 1983, has acted as EVP Housing since June 2022. Karislahti has 18 years of work experience in various positions at the construction group YIT. Since 2015, Karislahti has worked in management positions in housing construction, including as regional director. Karislahti holds the degree of M.Sc. (Eng.).

Timo Reiniluoto, born 1966, served from November 2014 to May 2017 as CEO of Lehto's subsidiary Rakennusliike Lehto Oy. Since 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 10 years work experience in Russia. In addition, Reiniluoto served as Board member of Oy Lautex Ab in 2006–2013. Reiniluoto holds the degrees of M.Sc. (Eng.) and Hanken MBA (Real Estate Finance).

Jukka Haapalainen, born 1975, has been employed by Lehto since 2019. He has over 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. Haapalainen holds the degree of M.Sc. (Eng.).

Jani Pentti, born 1974 has served as Vice President, Human resources since summer 2022 and past 3 years as a human resources manager. He has about 15 years of human resource management experience in the construction industry, including the construction company Lemminkäinen and Lehto. Pentti holds the bachelor's degree of Community Educator.

DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM 31 DECEMBER 2022

Name	No. of shares held	Shareholding ratio
Veli-Pekka Paloranta	501,653	0.57%
Matti Koskela	30,788	0.04%
Tero Karislahti	98,040	0.11%
Timo Reiniluoto	35,887	0.04%
Jukka Haapalainen	20	0.00%
Jani Pentti	-	-
Total	**666,388**	**0.76%**

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

Arto Tolonen, born 1966, was a member of the Group's Executive Team until February 2022. Tolonen served as CDO, Chief Development Officer.

Antti Asteljoki, born 1974, was a member of the Group's Executive Team until February 2022. Asteljoki served as Chief Commercial Officer.

Kaarle Törrönen, born 1966, was a member of the Group's Executive Team until summer 2022. Törrönen served as Vice President, Human resources.

Business operations management

The Group's operational business was during 2022 divided into two service areas: Business Premises and Housing. From the beginning of year 2022 Matti Koskela has acted as the EVP of Business Premises and from the June 2022 Tero Karislahti has acted as the EVP 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 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 and one in designing and planning. Two subsidiaries in Sweden no longer have operational activities.

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 support services, sourcing and purchasing, communications and information management.

3. 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 Board of Directors.

The aim of risk management is to:

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

The aim of risk management is not to:

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

Internal control

Internal control is a process performed by the Board of Directors, management and all Group personnel to ensure that there is a 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 companies 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 using Insightsoftware's FPM (Financial Performance Management) system. 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.

EVP's of service areas

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

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

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

4. 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 for extended closed window 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 top management as well as their families and entities on which related parties or their family members have influence through ownership or management. Related parties also include associated companies and joint ventures.

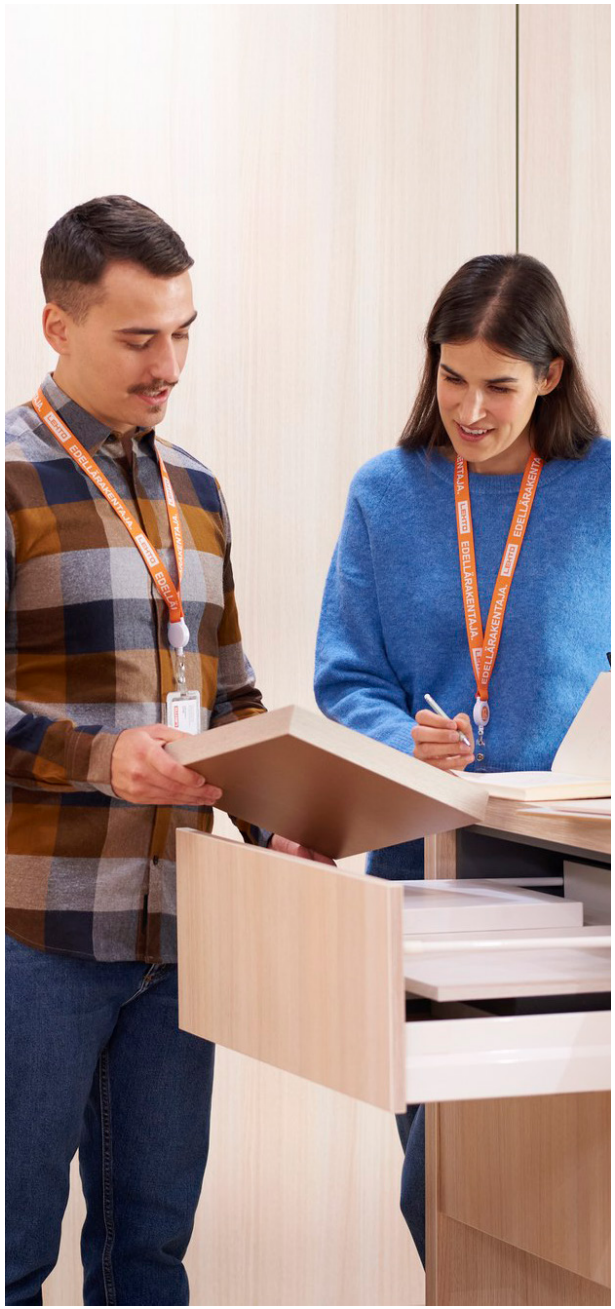
On 17 June 2020, the Company's Board of Directors approved the guidelines for related party transactions, which determine the principles governing any related party transactions at Lehto Group. In addition to the above-defined related parties, these guidelines are applied more extensively to the Lehto 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 2022, 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 2022 totaled approximately EUR 245,000. Furthermore, the Company paid the auditor approximately EUR 12,000 for services not related to auditing.



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