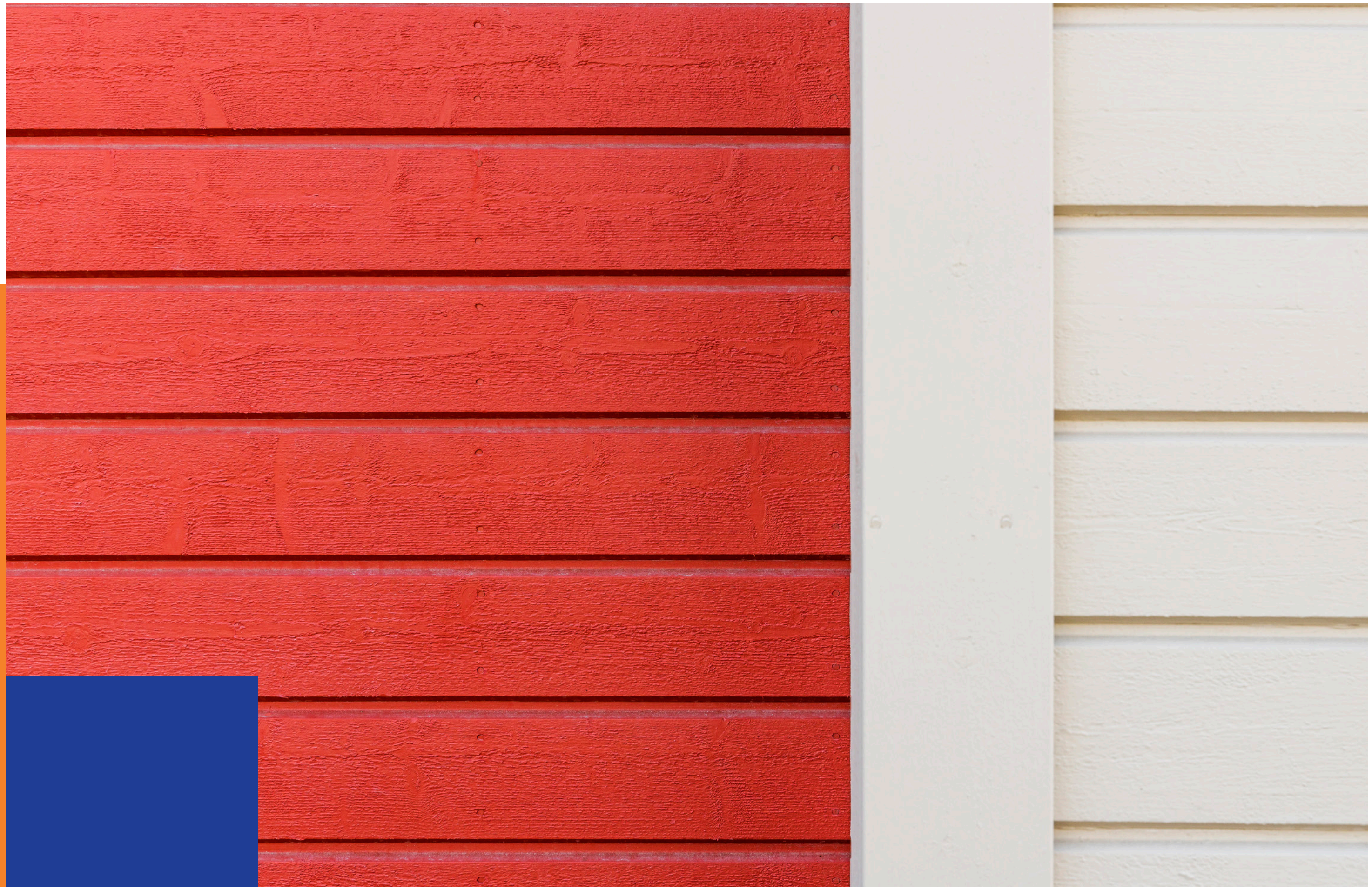
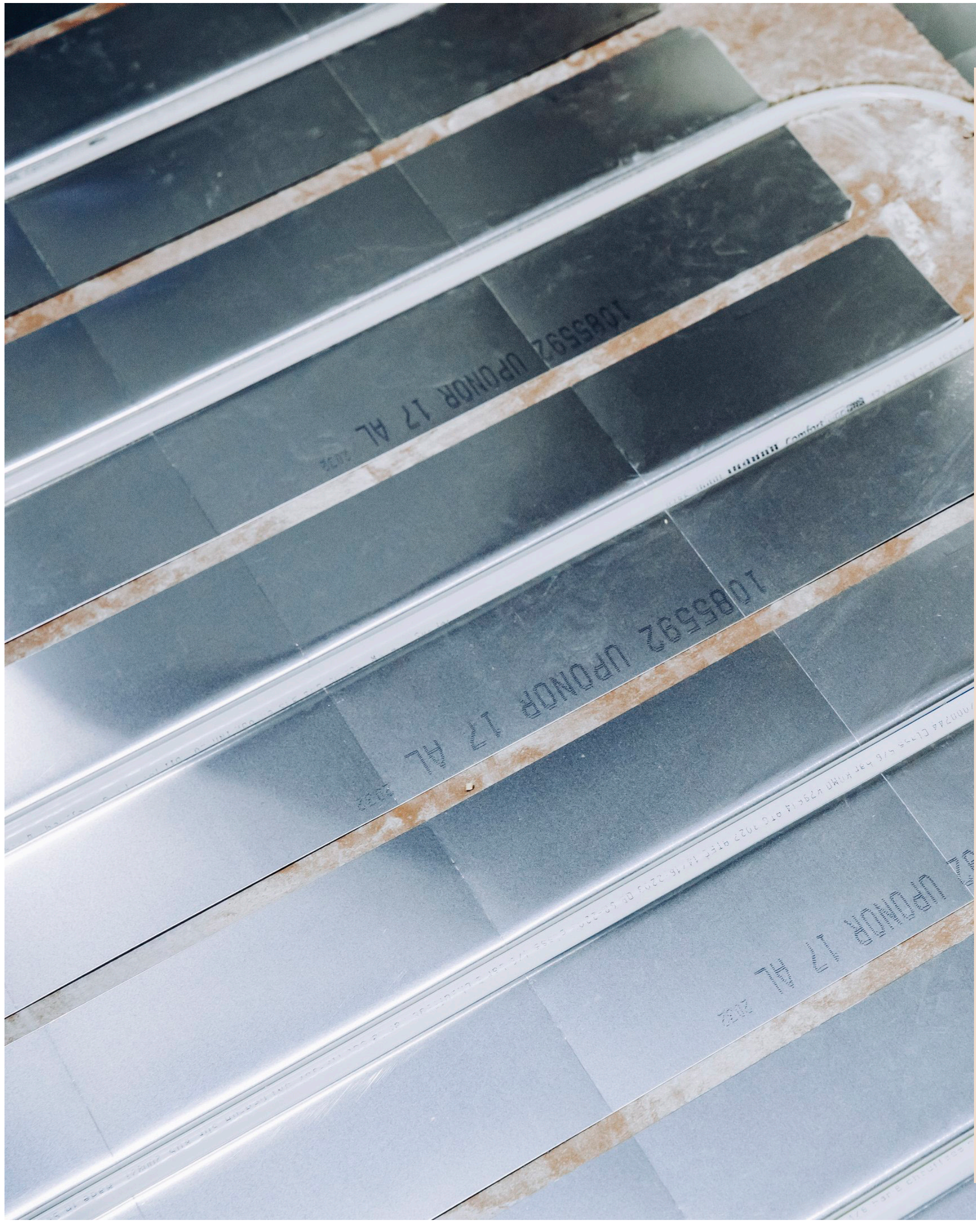
Financial Statements



Lehto Group Plc



Financial statements 2020

Consolidated statement of Comprehensive Income, IFRS

	Note	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Net sales	2	544 651	667 701
Other operating income	3	970	1 500
Changes in inventories of finished goods and work in progress		-98 717	-35 745
Capitalised production		0	46
Material and services		-358 973	-560 584
Employee benefit expenses	4	-63 705	-82 214
Depreciation and amortisation	5	-7 626	-8 203
Other operating expenses	6	-19 468	-24 337
Operating result		**-2 866**	**-41 836**
Financial income	7	346	262
Financial expenses	7	-4 327	-3 973
Result before taxes		**-6 848**	**-45 547**
Income taxes	8, 16	-1 348	9 797
Result for the financial year		**-8 196**	**-35 750**

	Note	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Result attributable to			
Equity holders of the parent company		-8 196	-35 750
Non-controlling interest		1	1
		-8 196	-35 750
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	22	78	-146
		78	**-146**
Comprehensive result attributable to			
Equity holders of the parent company		-8 119	-35 897
Non-controlling interest		1	1
		-8 118	-35 896
Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share	9		
Issue-adjusted average number of outstanding shares during the period, basic		71 012 014	70 597 352
Earnings per share, basic, EUR/share		-0,12	-0,51
Issue-adjusted average number of outstanding shares during the period, diluted		71 330 955	70 752 453
Earnings per share, diluted, EUR/share		-0,11	-0,51

Consolidated Balance Sheet, IFRS

ASSETS	Note	31 Dec 2020	31 Dec 2019
Non-current assets			
Goodwill	10	4 624	4 624
Other intangible assets	11	4 547	4 697
Property, plant and equipment	12	22 672	26 577
Investment properties	13	711	730
Other financial assets	15	771	775
Receivables	16	14 640	1 915
Deferred tax assets	17	15 401	16 473
Non-current assets total		**63 365**	**55 790**
Current assets			
Inventories	18	135 688	250 441
Trade and other receivables	19	79 691	86 307
Current tax assets	19	0	0
Financial assets at fair value through profit or loss	20	314	313
Cash and cash equivalents	21	104 741	58 911
Current assets total		**320 434**	**395 972**
TOTAL ASSETS		**383 799**	**451 762**

EQUITY AND LIABILITIES	Note	31 Dec 2020	31 Dec 2019
Equity			
Share capital		100	100
Invested non-restricted equity reserve		88 695	69 155
Translation difference		-241	-319
Retained earnings		35 076	43 184
Capital attributable to equity holders of the parent company		**123 629**	**112 120**
Non-controlling interest		7	6
Equity, total	22	**123 636**	**112 126**
Non-current liabilities			
Deferred tax liabilities	17	337	552
Provisions	23	12 522	9 384
Financial liabilities	24	9 976	5 928
Lease liabilities	24	31 509	44 658
Other non-current liabilities	25	115	122
Non-current liabilities, total		**54 458**	**60 645**
Current liabilities			
Advances received	25	64 397	73 220
Trade and other payables	25	69 069	67 110
Current income tax liabilities	25	50	83
Financial liabilities	24	70 402	136 431
Lease liabilities	24	1 787	2 147
Current liabilities, total		**205 705**	**278 992**
Liabilities, total		**260 163**	**339 636**
TOTAL EQUITY AND LIABILITIES		**383 799**	**451 762**

Consolidated Cash Flow Statement, IFRS

	Note	31 Dec 2020	31 Dec 2019
Cash flow from operating activities			
Result for the financial year		-8 196	-35 750
Adjustments:			
Non-cash items		3 721	3 247
Depreciation and amortisation		7 626	8 203
Share of associated company profits (losses)			
Financial income and expenses		3 981	3 711
Capital gains		-6	-843
Income taxes		1 348	-9 797
Changes in working capital:			
Change in trade and other receivables		-6 354	48 912
Change in inventories		103 962	27 893
Change in trade and other payables		-26 475	-53 578
Interest paid and other financial expenses		-6 237	-3 338
Financial income received		343	262
Income taxes paid		-138	-19
Net cash from operating activities		**73 574**	**-11 098**

	Note	31 Dec 2020	31 Dec 2019
Cash flow from investments			
Investments in property, plant and equipment		-544	-4 051
Investments in intangible assets		-1 440	-3 601
Sales of associated companies			1 638
Proceeds from sale of property, plant and equipment and intangible assets		6	63
Financial assets at fair value through profit or loss		7	-577
Repayments of loan receivables		775	
Loans granted		-530	-36
Dividends received		0	0
Net cash from investments		**-1 725**	**-6 563**
Cash flow from financing			
Loans drawn	24	39 931	132 644
Loans repaid	24	-82 258	-90 109
Lease liabilities paid	24	-2 540	-4 719
Acquisition of non-controlling interest			-280
Dividends paid		-7	-13 995
Paid share issue		20 321	
Costs related to paid share issue		-977	
Costs related to repurchasing own shares		-504	
Net cash used in financing activities		**-26 035**	**23 541**
Change in cash and cash equivalents (+/-)		**45 814**	**5 880**
Effects of exchange rate change		17	-37
Cash and cash equivalents at the beginning of the financial year		59 224	53 381
Cash and cash equivalents at the end of the financial year	20, 21	**105 054**	**59 224**

EUR 1,000

Consolidated statement of Changes in Equity, IFRS

	CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
	Share capital	Invested non-restricted equity reserve	Translation difference	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity on 1 January 2019	**100**	**69 155**	**-173**	**92 984**	**162 066**	**264**	**162 330**
Comprehensive income							
Result for the financial period				-35 750	**-35 750**	1	**-35 750**
Other comprehensive income items							
Translation difference			-146		**-146**		**-146**
Total comprehensive income			*-146*	*-35 750*	***-35 897***	*1*	***-35 896***
Transactions with equity holders							
Distribution of dividends				-13 995	**-13 995**		**-13 995**
Share-based compensation				-55	**-55**		**-55**
Transactions with equity holders, total				*-14 050*	***-14 050***		***-14 050***
Changes in holdings in subsidiaries							
Acquisitions of non-controlling interest not resulting change in control						-259	-259
Changes in holdings in subsidiaries, total						*-259*	*-259*
Equity on 31 December 2019	**100**	**69 155**	**-319**	**43 184**	**112 120**	**6**	**112 126**
Equity on 1 January 2020	**100**	**69 155**	**-319**	**43 184**	**112 120**	**6**	**112 126**
Comprehensive income							
Result for the financial period				-8 196	**-8 196**	1	**-8 196**
Other comprehensive income items							
Translation difference			78		**78**		**78**
Total comprehensive income			*78*	*-8 196*	***-8 119***	*1*	***-8 118***
Transactions with equity holders							
Distribution of dividends				-7	**-7**		**-7**
Share issue		20 321			**20 321**		**20 321**
Direct expenses related to share issue deducted from the tax effect		-782			**-782**		**-782**
Share-based compensation				600	**600**		**600**
Other changes				-504	**-504**		**-504**
Transactions with equity holders, total		*19 539*		*88*	***19 628***		***19 628***
Equity on 31 December 2020	**100**	**88 695**	**-241**	**35 076**	**123 629**	**7**	**123 636**

Accounting principles for the consolidated Financial Statements

Group basic information

Lehto Group is a construction and real estate group. The parent company is Lehto Group Plc and its business operations are organised for its subsidiaries. The parent company is domiciled in Kempele. The registered address is Voimatie 6 B, 90440 Kempele, Finland.

Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland. Lehto Group Plc's Board of Directors approved the financial statements on 17 February 2021. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2020. 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 euro.

Principles of consolidation

The consolidated financial statements include the parent company Lehto Group Plc and all subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or in which the Group otherwise has control. The criteria for control are fulfilled when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries acquired are consolidated from the date when the Group obtains control. Mutual holdings are eliminated using the acquisition method. All intra-Group transactions and internal profits, receivables and liabilities are eliminated in the consolidated financial statements. The number of shareholders' equity attributable to non-controlling shareholders is shown as a separate item under shareholders' equity.

Property, plant and equipment

Property, plant and equipment are measured at the original acquisition price less accumulated depreciation and impairments. They are depreciated during their estimated useful lives. The Group's property, plant and equipment include machinery and equipment, factory property in own use as well as other tangible assets, which mainly consist of capitalised renovation expenses for rental apartments. The residual value, useful lives and method of depreciation of property, plant and equipment are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

Goodwill and other intangible assets

Goodwill

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

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

An intangible asset is recognised in the balance sheet at the original acquisition cost if its acquisition cost can be determined reliably and it is likely that an expected economic benefit will flow to the Group from it.

Intangible rights are software and licenses as well as customer relationships based on agreements acquired through business combinations. Customer relationships based on agreements acquired in business combinations are recognised at the fair value at the acquisition date. Their useful lives are finite, so they are recognised in the balance sheet at acquisition cost less accumulated amortisation. The group's intangible assets have finite useful lives, and they are amortised in straight-line instalments during their estimated useful lives.

Research costs are recognised as expenses in the income statement. Development expenses is capitalised in the balance sheet once development phase expenses can be reliably estimated and it can be demonstrated that the development target will probably generate future economic benefit. Development expenses recognised in the balance sheet includes material and labour costs as well as any capitalised borrowing costs directly attributable to bringing the asset to working condition for its intended use. Prior development expenses recognised as expenses is not capitalised later.

The amortisation period for intangible rights and other intangible assets is 3–5 years. The residual value, useful lives and method of amortisation are reassessed at the end of each financial year and as necessary, adjusted to reflect the changes in the expected economic benefit.

Investment properties

Investment properties are properties which the Group holds in order to obtain rental income or appreciation in value or both. At inception investment properties are recognised at acquisition cost, which includes transaction costs. Investment properties are subsequently valued at the original acquisition price less accumulated depreciation and impairments. Investment properties are depreciated in straight-line instalments during their estimated useful lives. Land areas are not depreciated. Investment properties are business and residential properties and the estimated useful life of buildings and structures on these properties is 20 years. The residual value, useful lives and method of depreciation of investment properties are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

The fair values of investment properties are disclosed in the notes to the financial statements. Rental income obtained from investment properties is recorded on a straight-line basis over the period of the lease.

Impairment of intangible assets and property, plant and equipment

At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount from the asset item is estimated. Goodwill's recoverable amount is estimated annually regardless of whether there is any indication of impairment. Goodwill is also tested for impairment whenever there is any indication that the value of a unit may be impaired. Goodwill is tested for impairment at the level of individual cash-generating units, which is the lowest unit level mainly independent of other units and the cash flows of which are separable and mainly independent of cash flows of other corresponding units. A cash-generating unit is the lowest level within the Group at which goodwill is monitored for the purposes of internal management.

Recoverable amount is the higher of a unit's fair value less costs of disposal and its value in use. Value in use is the estimated discounted future net cash flows expected to be derived from the cash-generating unit. The discount rates used are pre-tax and reflect current market assessments of the time value of money and specific risks relating to the relevant asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is recognised as an expense. An impairment loss on a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. At recognition of the impairment loss, the useful life of the depreciated assets is reassessed. Impairment loss of other assets than goodwill is reversed in the case that a change has occurred in the estimates used in measuring the recoverable amount of the asset. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Impairment losses on goodwill are never reversed.

Associated companies

Associated companies are companies over which the Group has significant influence. Significant influence exists when the Group owns more than 20% of the company's voting power or when it otherwise has significant influence but not control. Associated companies have been consolidated using the equity method of accounting. Associated companies are disclosed in Note "Associated companies" and they are immaterial investments from the Group's viewpoint. The Group has sold the associated companies during the comparative financial year.

Joint arrangements

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

Inventories

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

Inventories are comprised of sites under construction, completed sites intended for sale and raw materials and supplies used in the operations. The acquisition cost of these comprises the value of the plot and other raw materials, borrowing costs, planning costs, direct costs of labour and other direct and indirect costs relating to the construction projects.

Financial assets and liabilities

Financial assets

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

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

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

Financial assets recognised at amortised cost

Financial assets recognised at amortised cost include financial assets under the held-to-collect business model, which are held until the due date in order to collect contractual cash flows. The cash flows of these items consist solely of principal and interest on the principal outstanding.

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

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

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Items included in cash and cash equivalents have original maturities of three months or less.

Financial liabilities

Financial liabilities are recognised initially at fair value. Transaction costs are included in the original carrying amount of financial liabilities at periodised acquisition cost.

Financial liabilities are subsequently carried at amortised cost using the effective interest method. Financial liabilities are classified as non-current or current. The latter group comprises all those financial liabilities for which the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Derivatives

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

Capitalisation of borrowing costs

Borrowing costs directly arising as a result of the acquisition, construction or manufacturing of a qualifying asset are capitalised as part of the acquisition cost of the asset in question. A qualifying asset is one that takes a substantial period of time to complete for its intended purpose. Capitalisation commences when the company first incurs expenditures for a qualifying asset giving rise to borrowing costs, and when it undertakes activities that are necessary for preparation of the asset for its intended use or for sale. Capitalisation ceases when all activities necessary to complete the asset for its intended use or sale have been carried out. In developer contracting housing projects, borrowing costs are capitalised in construction stage and recorded above operating profit as project cost upon delivery.

Provisions

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

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

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

A contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is only confirmed by one or more uncertain future events not wholly within the control of the group or when there is an obligation that is not recognised as a liability or provision because it is not probable that on outflow of resources will be required or the amount of the obligation cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements. At the balance sheet date, the Group had no contingent liabilities.

Leases

Group as lessee

The Group has long-term leases for land related to inventories; their lease period is often as long as 50-60 years. Land leases related to inventories are in the possession of the company during the project design and construction phase, that is, only a few years, but under IFRS 16 they must be classified as assets and liabilities. Most of the Group's other valid leases are for office premises and small machinery and equipment.

When measuring a lease liability, the present value of future payments takes into account any incentives, variable rents (indexes or based on price or other variable), residual value of the asset item, the realisation price of any purchase options or sanctions imposed due to termination of the lease. In fixed-term agreements, the lease period is the non-cancellable lease period and the probability of exercising an extension. The discount rate of a lease is the interest rate implicit in the lease or, if said rate cannot be readily determined, the incremental borrowing rate. Interest expenses on leases are presented in financial expenses. Leases are also recognised as assets and depreciated on a straight-line basis over the lease period. Leases with a lease period of less than one year or value of less than EUR 5,000 are expensed during the lease period.

Group as lessor

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

Revenue recognition principles

Sales recognised as revenue over time

Construction projects are recognised as revenue over time according to progress if the customer controls the asset as the asset is created or enhanced and the company has an enforceable right to payment for performance completed to date. Revenue from a performance obligation satisfied over time is recognised over time by measuring the progress towards complete satisfaction of the performance obligation in question. Satisfaction of the performance obligation is determined mainly based on costs incurred compared to estimated total costs if it does not materially differ from the satisfaction of the performance obligation determined otherwise.

A single method of measuring progress is applied for each performance obligation satisfied over time, and this method is consistently applied to similar performance obligations in similar circumstances. If the company is not able to reasonably measure the outcome of a performance obligation but expects to recover the costs incurred in satisfying the performance obligation, the company recognises revenue only to the extent of the costs incurred until the outcome of the performance obligation can reasonably be measured. If it is likely that the total costs of project completion exceed the total income from the project, the expected loss is entirely expensed.

If the agreement includes variable consideration, the variability is taken into account based on probability. The transaction price may be priced on a yield basis, whereby the final purchase price will not be finalized until the construction is completed. In determining the transaction price, the company adjusts the promised amount of consideration with a financing component if the payment schedule agreed by the parties provide the customer or the entity with a significant financing component in relation to the transfer of goods or services to the customer and if the duration is longer than one year.

Sales recognised as revenue upon delivery

If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time. The sale of property construction projects is recognised at the moment when control of the property is transferred to the buyer Net sales are recognised at the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or properties to a customer, with the exception of amounts collected on behalf of third parties. For apartments sold in the construction phase, control is deemed to have transferred upon completion, and for completed apartments, upon sale. Payments received from sold housing and real estates shares in progress are disclosed in Note ”Trade payables and other non-interest-bearing liabilities” under ”Advances received, revenue recognised upon delivery.

Sales recognised as rental income

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

Recognition of interest and dividend income

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

Operating profit

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

Employee benefits

Pension obligations

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

Share-based payments

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

Related party transactions

The Group's related parties include Group companies, members of the Board of Directors and the Group's top managements as well as entities on which related parties, or their family have influence through ownership or management. Related parties also include associated companies and joint ventures. Transactions with related parties are disclosed in Note "Related party transactions".

Income taxes

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

Changes in deferred taxes are calculated on temporary differences between the carrying amount and taxable value on the basis of the tax rate in force at the balance sheet date or confirmed tax rates entering into force subsequently. Deferred tax assets have been recognised to the extent that it is probable that taxable income against which the temporary difference can be applied will materialise in the future. The most significant temporary differences arise from unused taxable losses, revenue recognised for construction contracts by stage of completion and capitalisation of and financial expenses.

Tax-deductible losses have been taken into account as deferred tax assets to the extent that it is probable that the company can use them in the near future. No deferred taxes are calculated on goodwill that is not deductible in taxation.

Accounting principles requiring management judgement and the main factors of uncertainty affecting the estimates

When financial statements are prepared, the management must make estimates and exercise judgement in the application of the accounting policies. These estimates and decisions have an effect on the amounts of assets, liabilities, income and expenses and contingent liabilities recorded for the reporting period. The estimates and assumptions are based on historical experience and other justifiable assumptions deemed reasonable in the conditions where items entered in the financial statements have been estimated.

Management has exercised judgement in determining the economic lives of intangible assets and property, plant and equipment and investment properties. The most significant estimates at the balance sheet date and assumptions about the future relating to stage of completion revenue recognition, inventories, provisions and impairment testing. Below are presented the most significant items of the financial statements where management judgement and estimates were required.

Stage of completion revenue recognition

In construction contracts recognised using the stage of completion method revenue is based generally on the contract and revenue projections for the projects are estimated on a regular basis. Project total costs are based on the management's best estimate of the trend in total cost of project completion. The actual income and costs incurred, and the estimated result are monitored regularly on a monthly basis.

Inventories

The Group assess the valuing of inventory and possible decrease in value on its best estimate on a regular basis. The value of finished unsold sites included in inventories is the lower of their acquisition cost and the probable selling price. When estimating the probable selling price, the management takes into account the market situation and possible demand for the site.

Provisions

Provisions mainly consist of guarantee provisions typical for the industry. The amount is estimated on the basis of experience of the materialisation of such guarantee expenses.

Goodwill impairment testing

Goodwill is tested for impairment annually. Recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The cash flows in value-in-use calculations are based on the management's best estimate of profit and market development. Estimates used in goodwill testing are disclosed in Note "Goodwill".

New and revised standards and interpretations

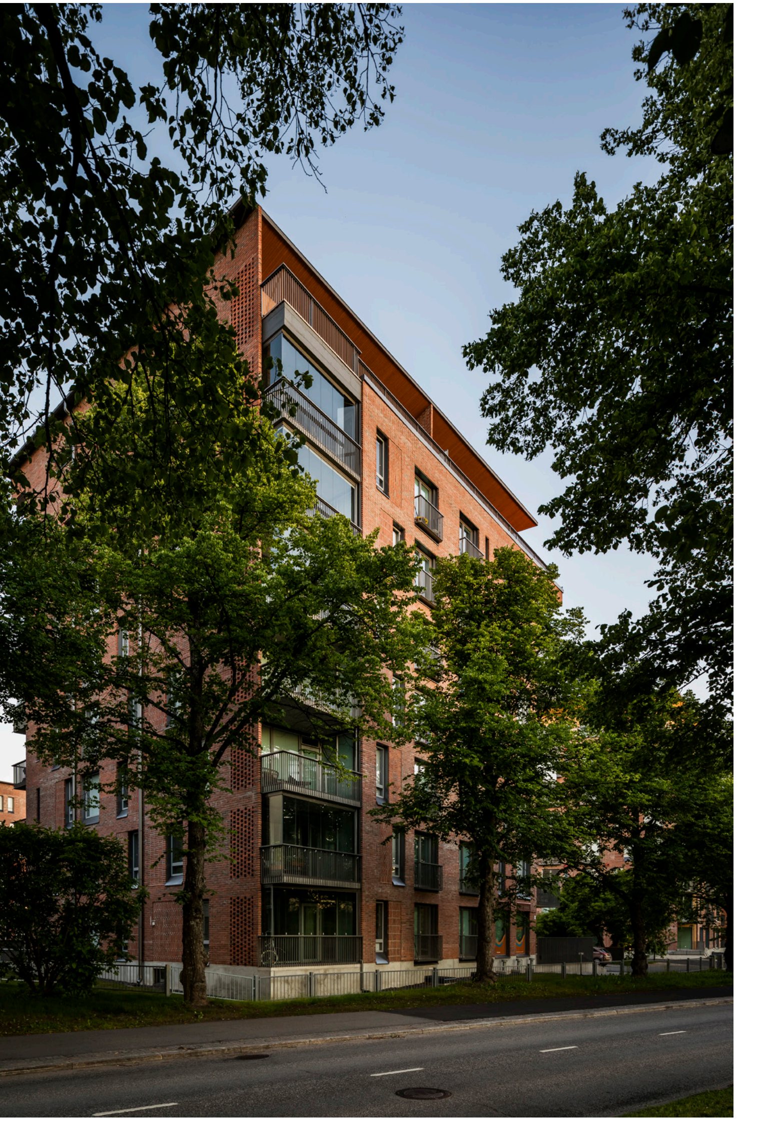
The following new and amended standards relating to preparing consolidated financial statements must be applied in financial periods starting on 1 January 2020 or thereafter.

- Amendments to IFRS 3, IAS 1 and IAS 8
- Amendments to IFRS 9, IAS 39 and IFRS 7
- Amendments to IFRS 16 Leases - Covid-19-Related Rent Concessions

The following new and amended standards for the preparation of consolidated financial statements are effective for financial periods starting on or after 1 January 2021:

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

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



Notes to the Consolidated Financial Statements

1. OPERATING SEGMENTS

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

Result	2020	2019
Net sales	***544 651***	***667 701***
of which in Finland	*544 651*	*665 740*
of which in Sweden	*0*	*1 961*
Other operating income	970	1 500
Operating expenses	-540 862	-702 834
Depreciation and amortisation	-7 626	-8 203
Operating result	***-2 866***	***-41 836***
Interest income	346	262
Interest costs	-4 327	-3 973
Shares of associated company results		
Segment's profit/loss before income taxes	***-6 848***	***-45 547***
Assets		
Segment's assets	***383 799***	***451 762***
Investments	4 268	3 971
Liabilities		
Segment's liabilities	***260 163***	***339 636***

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 68.1 million in 2020 (EUR 85.9 million in 2019), corresponding to approx. 12% (13%) of the segment's net sales. In 2020, the share of net sales of the largest individual customer was 4% (8% in 2019).

2. NET SALES

	2020	2019
Revenue recognised over time	376 741	349 099
Revenue recognised upon delivery	166 918	317 979
Rental income	993	623
Total	**544 651**	**667 701**

Rental income shown in net sales relates to items that form the company's actual business. Rental income relates to items that the company has itself built.

Revenue recognised that was included in the contract liability balance (advances received) at the beginning of the year was EUR 49.5 (53.2) million.

3. OTHER OPERATING INCOME

	2020	2019
Rental income	38	82
Grants	22	23
Damages	589	332
Capital gains	6	862
Other income	316	202
Total	**970**	**1 500**

Rental income shown in other operating income relates to items that doesn't arise from the company's actual business. Capital gains consist of the gain on sales of share investments.

4. EMPLOYEE BENEFIT EXPENSES

	2020	2019
Salaries and wages	52 898	67 368
Share-based incentives, portion to be paid out in cash	155	182
Share-based incentives, to be paid out in shares	518	431
Pension costs– defined contribution plans	8 188	11 772
Other personnel costs	1 945	2 461
Total	**63 705**	**82 214**

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

Number of personnel in average during the year, Group	2020	2019
Salaried employees	591	742
Workers	524	712
Total	**1 115**	**1 454**

Number of personnel at the end of the financial year, Group	2020	2019
Salaried employees	560	674
Workers	474	600
Total	**1 034**	**1 274**

5. DEPRECIATION AND AMORTISATION

Depreciation and amortisation of property, plant and equipment	2020	2019
Machinery and equipment		
Machinery and equipment	2 186	2 539
Machinery and equipment, right-of-use asset	228	206
Properties		
Properties in own use	742	718
Business premises, right-of-use asset	1 635	1 705
Inventories, right-of-use asset	1 131	1 769
Other tangible assets	114	111
Total	**6 036**	**7 050**

Depreciation and amortisation of intangible assets	2020	2019
Customer relationships	300	300
Other intangible assets	1 271	845
Total	**1 571**	**1 145**

Depreciation of investment properties	2020	2019
Buildings and structures	19	7
Total	**19**	**7**
Depreciation and amortisation, total	**7 626**	**8 203**

6. OTHER OPERATING EXPENSES

	2020	2019
Voluntary personnel expenses	1 831	2 871
Costs related to construction site and office space	3 136	4 169
IT and equipment expenses	3 088	3 341
Travel expenses	2 691	3 722
Product development expenses	434	401
Marketing expenses	2 839	4 198
Administrative services	3 594	3 611
Reduction from expected credit loss	22	51
Other operating expenses	1 833	1 972
Total	**19 468**	**24 337**

Fees paid to auditor:	2020	2019
Audit fees	271	285
Certificates and statements	1	3
Tax services	57	16
Other services	56	104
Total	*385*	*408*

7. FINANCIAL INCOME AND EXPENSES

Financial income	2020	2019
Dividend income	0	0
Other financial income	346	262
Total	**346**	**262**

Financial expenses	2020	2019
Interest expenses	3 694	3 740
Interest expenses from lease liabilities	1 228	1 873
Capitalised interest expenses	-1 730	-2 973
Other financial expenses	1 135	1 334
Total	**4 327**	**3 973**
Financial income and expenses, total	**-3 981**	**-3 711**

8. INCOME TAXES

	2020	2019
Current income tax	384	712
Change deferred tax assets	1 178	-10 347
Change deferred tax liabilities	-215	-163
Total	**1 348**	**-9 797**

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country	2020	2019
Tax rate	20,0 %	20,0 %
Profit before taxes	-6 848	-45 547
Taxes calculated at the tax rate of the domicile country	-1 370	-9 109
Tax-exempt income	-0	-945
Non-deductible expenses	395	130
Taxes for the previous financial years		523
Effect of foreign subsidiaries' different tax rates	19	-395
Unrecognized losses	2 304	
Total	**1 348**	**-9 797**

9. SHARE-BASED KEY FIGURES

	2020	2019
Result for the financial year attributable to equity holders of the parent company	-8 196	-35 750
Issue-adjusted average number of outstanding shares during the period, basic	71 012 014	70 597 352
Earnings per share, basic, EUR/share	-0,12	-0,51
Issue-adjusted average number of outstanding shares during the period, diluted	71 330 955	70 752 453
Earnings per share, diluted, EUR/share	-0,11	-0,51
Issue-adjusted number of outstanding shares at the end of the year	87 089 901	70 612 735
Equity / share	1,42	1,59
Dividend / share	– *)	-

*) Dividend proposal

Number of shares is issue-adjusted due share issue in December 2020. Share issue rate is 1.211.

10. GOODWILL

Cash-generating unit: Building Services	2020	2019
Goodwill	4 624	4 624

For the purposes of goodwill impairment testing, recoverable cash flows have been determined based on value-in-use calculations. A cash generating unit is the acquired business entity to which goodwill relates. The cash flows of cash generating units for the next five years have been discounted to their present value and the discount rate used is the weighted average cost of capital (WACC) determined for Lehto. Cash flows after five years – the residual value – have not been taken into consideration in the calculations, as they are impacted by actions taken after the goodwill was recognised and which change the performance of the cash generating unit. Cash flow forecasts are based on the budgets for 2021 approved by the company's management and the strategic forecasts for 2022-2025.

The pre-tax weighted average cost of capital (WACC) has been remeasured based on the weighting of the indicators of an industrial comparison group with the average capital structure in the sector. This measurement takes into account indicators such as sector-specific beta value, country risk, market risk premium, interest on borrowing in the sector, risk-free interest rate, and the risk premium related to the company's size class. According to the calculation, the discount rate to be used in the 2020 financial statements is 10.55% (8.06% in 2019).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2019. No material changes with an impact on expected cash flow from operations has occurred in the business environment compared with the previous financial year. Impairment testing on 31 December 2020 did not indicate a need to recognise impairment.

A sensitivity analysis was performed in connection with impairment testing; as a result, the net sales and operating result forecast for the next five years was lowered by 15% and the discount rate was increased by 5 percentage points. The value of the asset item was deemed to be dependent on the operating result in particular. No need for recognition of impairment was found on the basis of the sensitivity analysis.

11. OTHER INTANGIBLE ASSETS

Intangible assets 2020	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2020	4 282	6 679	10 961
Increases		1 421	1 421
Acquisition cost at 31 Dec. 2020	**4 282**	**8 100**	**12 382**
Accumulated depreciation and amortisation at 1 Jan. 2020	-3 757	-2 508	-6 264
Depreciation	-300	-1 271	-1 571
Accumulated depreciation and amortisation at 31 Dec. 2020	**-4 057**	**-3 779**	**-7 835**
Carrying amount at 1 Jan. 2020	525	4 172	4 697
Carrying amount at 31 Dec. 2020	**225**	**4 322**	**4 547**

Intangible assets 2019	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2019	4 282	3 079	7 361
Increases		3 600	3 600
Acquisition cost at 31 Dec. 2019	**4 282**	**6 679**	**10 961**
Accumulated depreciation and amortisation at 1 Jan. 2019	-3 457	-1 662	-5 119
Depreciation	-300	-845	-1 145
Accumulated depreciation and amortisation at 31 Dec. 2019	**-3 757**	**-2 508**	**-6 264**
Carrying amount at 1 Jan. 2019	825	1 417	2 242
Carrying amount at 31 Dec. 2019	**525**	**4 172**	**4 697**

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2020	Right-of-use asset	Properties in own use	Machinery and equip. and other tangible assets	Total
Acquisition cost at 1 Jan. 2020	8 547	14 187	15 332	38 066
Increases	2 284	-3	565	2 847
Decreases	-1 847			-1 847
Acquisition cost at 31 Dec. 2020	**8 984**	**14 184**	**15 898**	**39 066**
Accumulated depreciation and amortisation at 1 Jan. 2020	-1 911	-1 867	-7 711	-11 489
Amortisation				
Depreciation	-1 862	-742	-2 300	-4 905
Accumulated depreciation and amortisation at 31 Dec. 2020	**-3 774**	**-2 610**	**-10 010**	**-16 394**
Carrying amount at 1 Jan. 2020	6 636	12 319	7 622	26 577
Carrying amount at 31 Dec. 2020	**5 211**	**11 574**	**5 887**	**22 672**

Property, plant and equipment 2019	Right-of-use asset	Properties in own use	Machinery and equip. and other tangible assets	Total
Acquisition cost at 1 Jan. 2019		14 057	15 091	29 148
Effect of IFRS 16 standard amendment on Jan 1	8 547			8 547
Increases		130	241	371
Acquisition cost at 31 Dec. 2019	**8 547**	**14 187**	**15 332**	**38 066**
Accumulated depreciation and amortisation at 1 Jan. 2019		-1 149	-5 060	-6 209
Amortisation			-1	-1
Depreciation	-1 911	-718	-2 650	-5 280
Accumulated depreciation and amortisation at 31 Dec. 2019	**-1 911**	**-1 867**	**-7 711**	**-11 489**
Carrying amount at 1 Jan. 2019		12 908	10 032	22 940
Carrying amount at 31 Dec. 2019	**6 636**	**12 319**	**7 622**	**26 577**

13. INVESTMENT PROPERTIES

Investment properties 2020	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2020	202	809	1 011
Acquisition cost at 31 Dec. 2020	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2020		-282	-282
Depreciation		-19	-19
Accumulated depreciation and amortisation at 31 Dec. 2020		**-300**	**-300**
Carrying amount at 1 Jan. 2020	202	527	730
Carrying amount at 31 Dec. 2020	**202**	**509**	**711**

Investment properties 2019	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2019	202	809	1 011
Acquisition cost at 31 Dec. 2019	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2019		-274	-274
Depreciation		-7	-7
Accumulated depreciation and amortisation at 31 Dec. 2019		**-282**	**-282**
Carrying amount at 1 Jan. 2019	202	554	757
Carrying amount at 31 Dec. 2019	**202**	**527**	**730**

Net rental income	2020	2019
Rental income from investment properties	83	43
Direct maintenance costs for investment properties	27	29
	56	**14**

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 2020	Fair value 2019
Business property	Acquisition cost	3	598	606
Land area	Acquisition cost	3	202	202
			800	**808**

The fair values of investment properties are determined by the company itself using the cash flow method. Fair values of level 3 asset items are based on input data concerning the asset item, which are not based on verifiable market information but are based substantially on management estimates and their use in generally accepted valuation models.

14. INVESTMENTS IN ASSOCIATED COMPANIES

	2020	2019
Investments in associated companies at 1 Jan.		859
Decreases		-859
Investments in associated companies at 31 Dec.		

The Group has sold all shares of associated companies during the year 2019.

15. OTHER FINANCIAL ASSETS

Financial assets recognised through profit and loss	2020	2019
Financial assets recognised through profit and loss at 1 Jan.	775	214
Increases		757
Decreases	-4	-195
Financial assets recognised through profit and loss 31 Dec.	**771**	**775**

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

	2020	2019
Non-current security deposits	12 922	
Non-current loan receivables	1 555	1 915
Other non-current receivables	163	
Total	**14 640**	**1 915**

17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets 2020	1 Jan 2020	Recognised in income statement	31 Dec 2020
Fixed assets internal margin	64	-13	50
Confirmed losses	12 522	-398	12 124
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	3 831	-771	3 060
Other temporary differences	29	4	33
Exchange rate difference in opening balance	28		134
Total	**16 473**	**-1 178**	**15 401**

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

On Dec 31, 2020 the Group had EUR 10.2 (0.0) million confirmed losses for which no deferred tax receivables have been recognized because the Group consideres it possible that it will not have taxable income before the losses expire. Of these losses, EUR 7.6 million are allocated to Finland and EUR 2.6 million to Sweden. These losses will expire from 2030 onwards.

Deferred tax assets 2019	1 Jan 2019	Recognised in income statement	31 Dec 2019
Fixed assets internal margin	47	16	64
Tax losses carried forward	84	12 438	12 522
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	5 965	-2 134	3 831
Other temporary differences	2	26	29
Exchange rate difference in opening balance	-5		28
Total	**6 093**	**10 347**	**16 473**

Deferred tax liabilities 2019	1 Jan 2019	Recognised in income statement	31 Dec 2019
Temporary differences from capitalisation of financial expenses	85	-4	81
Depreciation difference with taxation	394	-45	348
Other temporary differences	236	-113	123
Total	**715**	**-163**	**552**

18. INVENTORIES

	2020	2019
Materials and supplies	2 413	3 986
Work in progress	84 770	161 441
Right-of-use asset	27 773	39 803
Completed products	18 654	44 340
Inventory shares	49	123
Other inventories	2 030	749
Total	**135 688**	**250 441**

19. TRADE AND OTHER RECEIVABLES

	2020	2019
Trade receivables	46 276	50 484
Loan receivables	1 022	1 430
Current tax assets		0
Security deposits	10 067	
Other receivables	1 230	3 862
Receivables from customers for constructing contracts	20 465	29 608
Adjusting entries for assets	632	923
Total	**79 691**	**86 307**

Ageing analysis of trade receivables	2020	2019
Not yet due	38 479	36 269
Reduction from expected credit loss	-84	-62
Due for		
less than 30 days	3 801	10 840
30–60 days	577	634
61–90 days	157	1 265
more than 90 days	3 346	1 538
Total	**46 276**	**50 484**

No significant concentrations of credit risk are associated with the receivables. The balance sheet values equal reasonably to fair values.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
Financial assets at fair value through profit or loss	314	313
Total	**314**	**313**

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term and highly liquid investments. The fair value of the investment is determined using the buying rate of the counterparty at the end of the reporting period.

21. CASH AND CASH EQUIVALENTS

	2020	2019
Cash in hand and at banks	104 741	58 911
Total	**104 741**	**58 911**

22. EQUITY

	Number of shares	Share capital	Invested non-restricted equity reserve	Total
31 December 2015	**22 655 202**	**100**	**5 830**	**5 930**
Share split 30 March 2016	22 655 202			
Directed share issue on 28 April 2016	11 874 705		63 325	**63 325**
Conversion of equity loan 28 April 2016	1 065 643			
31 December 2016	**58 250 752**	**100**	**69 155**	**69 255**
31 December 2017	**58 250 752**	**100**	**69 155**	**69 255**
31 December 2018	**58 250 752**	**100**	**69 155**	**69 255**
Directed share issue on 19 March 2019	58 691			
31 December 2019	**58 309 443**	**100**	**69 155**	**69 255**
Directed share issue on 18 Dec 2020	29 029 967		19 539	**19 539**
31 December 2020	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	249 509			
Outstanding shares on 31 December 2020	**87 089 901**			

SHARES AND SHARE CAPITAL

Annual General Meeting on 14 April 2020

The Annual General Meeting on April 14, 2020 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 5,320,000 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). Then, 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, 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 2021. Separately the Annual General Meeting authorised the Board of Directors to purchase the company's own shares with the aforementioned terms, such that the maximum quantity purchased be 480,000 shares when the purchase is made to execute the company's share-based incentive systems. The authorisation is valid until 30 June 2023.

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 5,320,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or without consideration. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the company's point of view and the benefit of all its shareholders. The Board of Directors is authorised to decide on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares. Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, or when the company purchases assets linked to its operations. 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 2021. The authorisation shall replace the company's previous share issue and option authorisations. Separately the Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 480,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several instalments when the issue is used to implement company's share-based incentive systems. The authorization is valid until 30 June 2023.

Extraordinary General Meeting on 25 September 2020

The Extraordinary General Meeting authorised the Board of Directors to resolve on the issuance of a maximum of 60,000,000 new shares to carry-out the rights issue. With the share issue, the company wants to strengthen its ability to implement the strategy and further develop modular construction method based on prefabricated elements. The shares are offered for subscription to the shareholders of the company in proportion to their shareholding in the company as per the record date of the rights issue. The authorisation includes the right for the Board of Directors to resolve to offer, on a secondary basis, the potentially unsubscribed shares to the other shareholders or other persons for subscription. The authorisation can only be used to carry-out one rights issue. The Board of Directors was authorised to resolve on all other terms and conditions of the rights issue.

It was resolved that the authorisation is valid until the close of the next Annual General Meeting, however, no longer than until 30 June 2021. The authorisation does not revoke the share issue authorisations resolved upon earlier.

Repurchase and transfer of own shares and share issue

With the authorization given by the Annual General Meeting held on March 29, 2019, the company carried out the repurchase of 306,702 own shares in March-April 2020 and a directed share issue, 50,341 shares, to implement the share-based incentive plan. In December 2020, the company carried out a share issue of 29,029,967 shares. The share issue ratio is 1,211.

At balance sheet date, the number of shares totalled 87,339,410, of which the company holds 249,509 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.

Invested non-restricted equity reserve

The invested non-restricted equity reserve contains equity investments and that part of the share subscription price that has not specifically been allocated to share capital.

The funds received from the IPO, less total fees and expenses for the IOP, have been recorded to invested non-restricted equity reserve.

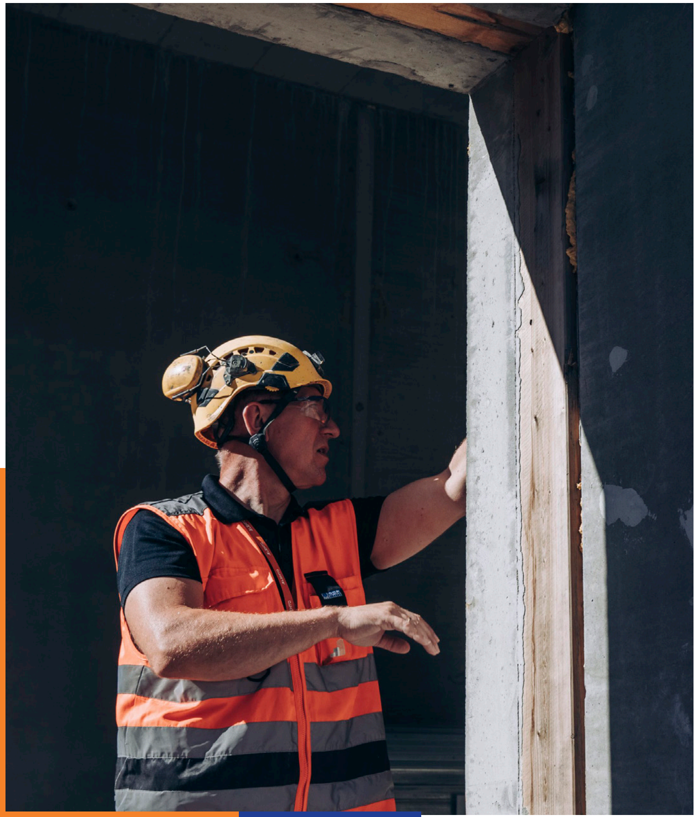
Share-based compensations

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

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

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2018-2020 correspond to the value of an approximate maximum total of 1,500,000 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 2020 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2017 of the long-term incentive plan adopted by Lehto in 2017. In the share issue 50,341 Lehto Group Plc's shares owned by the company were issued free of consideration to 29 group key employees in accordance with the terms and conditions of the plan. The Issue Shares corresponded to approximately 0.1 per cent of Lehto's shares and votes prior to the share issue. For the earning period 2018, the performance bonus for members of the share plan was EUR 880,000, which adjusted with share issue ratio due share issue in December 2020 converts into 69,544 shares. For the earning period 2019 the performance bonus for members of the share plan was EUR 326,000, converted to issued-adjusted shares 145,583.



Arrangement	2018	2019	2020
	Earning period		
Nature of arrangement	Shares	Shares	Shares
Date of issue	14 Feb 2018	12 Feb 2019	20 Feb 2020
Number of instruments issued (issued-adjusted)	69,544	145,583	175,831 (estimate)
Share price on grant date (issued-adjusted)	10.29	3.57	1.89
Period of validity	3 years	3 years	3 years
Expected performance, %	100 %	100 %	100 %
Terms and conditions of conferral of right	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms
Carried out	As shares	As shares	As shares

For the 2018, 2019 and 2020 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2020 will be adjusted according to the terms and conditions once the conversion rate (subscription price) has been established. The number of shares issued on the balance sheet date is based on an estimate.

The fair value of the shares is based on the quoted share price. The amount recognised as an expense is presented under ”Employee benefit expenses” in the Notes.

Furthermore, the Board of Directors decided to continue the Group’s restricted share plan. The reward from the restricted share plan is based on a key employee’s valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company’s shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash. No key personnel were covered by the restricted share plan in 2020.

23. PROVISIONS

Provisions 2020	Guarantee provisions	Onerous projects	Total
Provisions 1 Jan. 2020	8 190	1 194	9 384
Increases	5 852	1 217	7 069
Decreases	-3 932		-3 932
Provisions 31 Dec. 2020	**10 110**	**2 411**	**12 522**

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

Guarantee provisions include estimated supplementary work expenses for construction projects completed during the financial year and actual supplementary work expenses incurred for construction projects completed during the previous financial year as a decrease. The guarantee period for a construction contract is 2 years and 10 years for developer contracting projects. The provision recorded is based on experience from previous years. Provisions are recorded as an expense in the item in which they are expected to materialise. Onerous projects include the estimated amount of expenditure that exceeds the benefits that may be derived from it.

24. FINANCIAL LIABILITIES

	2020	2019
Non-current loans from financial institutions	4 739	5 556
Non-current instalment debts	106	373
VAT loan arrangement with the Tax Administration	5 130	
Non-current lease liabilities	31 509	44 658
Total	**41 484**	**50 586**

	2020	2019
Current loans from financial institutions	44 818	103 289
Current instalment debts	267	303
VAT loan arrangement with the Tax Administration	12 133	
Debts on shares in unsold housing and real estate company shares in progress	-0	17 085
Debts on shares in unsold housing and real estate company shares completed	13 185	15 754
Current lease liabilities	1 787	2 147
Total	**72 189**	**138 579**
Financial liabilities, total	**113 673**	**189 165**

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

	1 Jan 2020	Cash flows	Non-cash flows	31 Dec 2020
Non-current financial liabilities	50 586	1 507	-10 609	41 484
Current financial liabilities	138 579	-66 029	-360	72 189
Total	**189 165**	**-65 523**	**-10 969**	**113 673**

	1 Jan 2019	Cash flows	New leases	31 Dec 2019
Non-current financial liabilities	20 101	-18 891	49 377	50 586
Current financial liabilities	95 802	40 629	2 147	138 579
Total	**115 903**	**21 738**	**51 524**	**189 165**

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

Non-current non-interest-bearing liabilities	2020	2019
Estimated purchase prices from inventory shares	115	122
Total	**115**	**122**

Current non-interest-bearing liabilities	2020	2019
Advances received		
From projects where revenue recognised over time	12 476	14 930
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estate shares in progress	51 644	28 855
Debts on shares in sold housing and real estate shares in progress		28 801
Other advances received	278	635
Trade payables	36 051	29 755
Other liabilities		
Liabilities paid to the Tax Administration	11 046	14 481
Other liabilities	2 534	4 002
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	10 249	11 763
Income tax debt	50	83
Other adjusting entries for liabilities	9 188	7 109
Total	**133 516**	**140 413**

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 2020, the cash and cash equivalents amounted to EUR 104.7 million (EUR 58.9 million 31 December 2019) 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 2020 was EUR 39.0 million, which all was in use.

On 30 June 2020 Lehto signed an agreement replacing its earlier syndicated Revolving Credit Facility. The agreement is based on the same bank syndicate as earlier comprising of OP Corporate Bank Plc, Nordea Bank Plc and Swedbank AB. The agreement is for EUR 54 million and will remain in force until 31 December 2022. The agreement includes partial collaterals and financial covenants on EBITDA, interest-bearing net debt and net gearing that may also affect to the distribution of dividends while the Revolving Credit Facility is in force. According to the agreement, some of the credit will be repaid before the end of the contractual period and the rest upon expiry of the agreement.

In July 2020 the Lehto entered into a loan facility with the Tax Administration for the company's VAT exposures of approximately EUR 21 million. The VAT loan arrangement has arisen from the opportunity offered by the Tax Administration to prepare for potential impacts of the coronavirus epidemic, in practice by borrowing back the VAT paid in the spring season of 2020.

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

Foreign exchange risk

The Group's foreign exchange risk is currently somewhat low because income and expenses are denominated mainly in euros. If an order is agreed on in a foreign currency, the method of hedging the exchange rate risk and the hedge ratio is determined separately in each case. Foreign exchange differences arising from hedging is recorded in the income statement under financial income and expenses. During the financial period and at balance sheet date the Group had no open currency hedges.

The Group's functional currency is euro. At the balance sheet date, the Group had liabilities denominated in foreign currency EUR 0.6 million (EUR 0.7 million on 31 December 2019) and receivables denominated in foreign currency totalling EUR 1.6 million on 31 December 2020 (EUR 1.2 million in 2019). Most of the foreign currency exposure came from Swedish Crown.

Interest rate risk

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

Sensitivity analysis for loans with floating rates	2020		2019	
Change, %	1 %	-1 %	1 %	-1 %
Impact on profit/loss after taxes	-39	39	-47	47

Credit risk

The Group's most significant credit risk is related to trade receivables from the customers. The aging distribution of trade receivables and the solvency of largest customers is monitored on group level and by the Group companies. The credit risk is also managed by granting customers regular payment terms only. Payment terms applied in the Group currently range from 7 days to 45 days and the most typical payment term is 30 days. Furthermore, for individual projects a longer payment term can be agreed on, where the payment is made as a one-off payment at the end of the project.

Liquidity risk

The liquidity risk in managed through maintaining an adequate infrastructure for planning and monitoring of funding and cash management. To secure immediate liquidity the Group has credit limits. The amount of un-used credit limits on 31 December 2020 was EUR 0.0 million (EUR 21.0 million in 2019).

Analysis of debt maturity

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

31 Dec 2019	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	140 125	5 928		146 054
Lease liabilities	3 376	7 870	52 389	63 635
Trade payables and other non-interest-bearing liabilities	48 238	122		48 360

Capital management

The objective of the Group's capital management is to support business operations through an optimal capital structure and to increase shareholder value with the objective of achieving the best possible return. Another aim with optimal capital structure is to ensure reasonable capital costs.

Net liabilities	2020	2019
Interest-bearing liabilities	113 673	189 165
Cash and cash equivalents and interest-bearing receivables	-105 054	-59 224
	8 619	**129 941**
Equity, total	123 636	112 126
Gearing	40,0 %	49,9 %
Net gearing ratio	7,0 %	115,9 %

27. JOINT ARRANGEMENTS

In comparison year the Group had a 50% holding in two joint operations, Työyhteenliittymä Kastelli-Optimikodit Kirkkonummen Aurinkopuisto and Työyhteenliittymä Rakennuskartio/ Kastellitalot Oy. The joint operations are consolidated in proportion to holding. The joint operations ended during the financial year.

Assets, liabilities, expenses and revenue of joint operations included in the consolidated balance sheet and the comprehensive income statement were as follows:

	2020	2019
Current assets	-	4
Current liabilities	-	23
Revenue	-	7
Expenses	-	

28. LEASES

Group as lessee

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

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

Right-of-use assets and lease liabilities 2019	Inventories	Property, plant and equipment	Lease
Effect of IFRS 16 standard amendment on Jan 1	101 662	8 547	110 209
Decreases	-59 787		-58 685
Depreciation / instalments	-1 769	-1 911	-4 719
Dec 31, 2019	**40 106**	**6 636**	**46 805**

The average incremental borrowing rate of lessees is 2.0%. Interest expenses related to lease liabilities in 2020 amounted to EUR 1,222 thousand (EUR 1,873 thousand in 2019). Interest expenses on lease liabilities are presented in financial expenses in the notes under "Financial income and expenses".

EUR 1.856 (1.673) thousand was recognised as expenses from low-value and short leases during the financial year. The total cash flow leases amounted to EUR 2,507 (2,848) thousand and from land leases to EUR 3,117 (3,624) thousand.

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

29. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2020	2019
Loans from financial institutions	49 454	54 706
Debts on shares in unsold housing company shares	13 185	32 840
Instalment debts	259	554
Total	**62 898**	**88 100**

Guarantees	2020	2019
Real-estate mortgages	9 380	9 380
Pledges	22 938	60 470
Absolute guarantees	299	327
Total	**32 618**	**70 178**

Contract guarantees	2020	2019
Production guarantees	48 069	41 190
Warranty guarantees	22 508	17 649
RS guarantees	20 944	34 999
Payment guarantees	2 011	4 085
Total	**93 531**	**97 923**

Liability to adjust value added tax (VAT) on property investments	2020	2019
Liability to adjust VAT	2 257	2 616

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

30. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

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

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

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

31. RELATED PARTY TRANSACTIONS

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

Transactions with related parties

	Sales 2020	Sales 2019	Purchases 2020	Purchases 2019
Key personnel and their controlled entities	75 538	30 884	6 201	4 595
Total	**75 538**	**30 884**	**6 201**	**4 595**

	Receivables 31 Dec. 2020	Receivables 31 Dec. 2019	Liabilities 31 Dec. 2020	Liabilities 31 Dec. 2019
Key personnel and their controlled entities	2 301	4 475	641	19
Total	**2 301**	**4 475**	**641**	**19**

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

The most significant part of the sales to related parties consists of the sale of apartments and business premises to NREP Oy or companies owned by it or funds managed by it. Mikko Räsänen, a member of Lehto's Board of Directors, is a shareholder in NREP Oy and Chairman of the Board. Sales to NREP Oy or its controlled and influential entity totalled approximately EUR 76 million.

Purchases from related parties mainly consist of the rental of work machines and equipment from Lehto Invest Oy, a company controlled by CEO Hannu Lehto. These purchases amounted to EUR 2.7 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 164 thousand. In addition, Lehto purchases building technology design and maintenance services from Elvak Oy, which is a company controlled by the company's CEO Hannu Lehto's son. The amount of these purchases was EUR 3.2 million.

Management salaries and remuneration

	2020	2019
Chief Executive Officer, CEO		
Hannu Lehto	115	126
Other management	1 160	1 336
Total	**1 275**	**1 463**

Members of the Board of Directors	**2020**	**2019**
Seppo Laine, chairman (member of BoD since March 29, 2019)	76	41
Mikko Räsänen	40	49
Anne Korkiakoski (since March 29, 2019)	41	40
Helena Säteri (since April 14, 2020)	35	-
Raimo Lehtiö (since April 14, 2020)	35	-
Martti Karppinen (until April 14, 2020)	8	96
Pertti Korhonen (until April 14, 2020)	4	50
Sakari Ahdekivi (until March 29, 2019)	-	9
Päivi Timonen (until March 29, 2019)	-	9
Total	**240**	**293**

Income statement for parent company, FAS

	1 Jan - 31 Dec 2020	1 Jan – 31 Dec 2019
Net sales	9 266	10 541
Other operating income	17	919
Personnel expenses		
Salaries and fees	-3 614	-4 075
Personnel expenses		
Pension costs	-518	-716
Indirect employee costs	-109	-109
Depreciation according to plan and impairment	-1 123	-790
Other operating expenses	-4 583	-4 522
Operating profit/loss	**-665**	**1 248**
Financial income and expenses		
Income from holdings in Group companies		25
Interest and other financial income		
From Group companies	462	2 369
From others	173	22
Interest and other financial expenses		
To Group companies	-7	-10
To others	-3 380	-2 083
Financial income and expenses, total	*-2 751*	*322*
Profit / loss before appropriations and taxes	**-3 416**	**1 570**
Appropriations		
Group contribution	1 451	-1 669
Profit/loss before taxes	**-1 965**	**-99**
Taxes		0
Profit / loss for the financial year	**-1 965**	**-99**

Balance Sheet for the parent company, FAS

ASSETS	31 Dec 2020	31 Dec 2019
Non-current assets		
Intangible assets	2 025	2 281
Machinery and equipment	137	402
Holdings in Group companies	81 698	80 840
Other shares and investments	757	757
Non-current assets, total	**84 617**	**84 279**
Current assets		
Inventories	83	83
Non-current receivables		
Receivables from Group companies	2 691	1 229
Loan receivables	163	
Current receivables		
Trade receivables	8	
Receivables from Group companies	7 772	51 749
Loan receivables	252	
Other receivables	10 011	14
Adjusting entries for assets	183	259
Financial securities	314	313
Cash and cash equivalents	103 201	56 429
Current assets total	**124 679**	**110 075**
ASSETS TOTAL	**209 296**	**194 354**

EQUITY AND LIABILITIES	31 Dec 2020	31 Dec 2019
Equity		
Share capital	100	100
Invested non-restricted equity reserve	91 655	71 335
Retained earnings	-3 126	-2 516
Profit for the financial year	-1 965	-99
Equity, total	**86 664**	**68 820**
Liabilities		
Non-current liabilities		
Other liabilities	78	
Non-current liabilities, total	*78*	
Current liabilities		
Loans from financial institutions	39 000	54 050
Trade payables	873	533
Liabilities to Group companies	81 426	69 582
Other liabilities	360	290
Adjusting entries for liabilities	894	1 080
Current liabilities, total	*122 553*	*125 535*
Liabilities, total	**122 632**	**125 535**
EQUITY AND LIABILITIES TOTAL	**209 296**	**194 354**

Cash Flow Statement for the parent company, FAS

	31 Dec 2020	31 Dec 2019
Cash flow from operating activities		
Result for the financial year	-3 416	1 570
Adjustments:		
Depreciation according to plan and impairment	1 123	790
Gain on sale of non-current assets		-878
Financial income and expenses	2 751	-322
Changes in working capital:		
Change in trade and other receivables	-9 818	-67
Change in trade and other payables	29	-720
Interest paid and other financial expenses	-3 474	-1 817
Interests received from operations	549	2 279
Income taxes paid		-36
Net cash from operating activities	**-12 255**	**798**
Cash flow from investments		
Investments in intangible and tangible assets	-603	-1 682
Investments in other investments	-41 196	-1 037
Repayment of loan receivables	1 050	600
Loans granted	-3 278	-10 970
Sales of associated companies		1 658
Net cash from investments	**-44 027**	**-11 432**

	31 Dec 2020	31 Dec 2019
Cash flow from financing		
Loans drawn	340	60 000
Loans repaid	-15 115	-26 200
Change in Group financing	99 690	7 267
Group contribution	-1 669	-800
Dividends paid	-7	-13 995
Share issue paid	20 321	
Repurchase of own shares	-504	
Net cash used in financing activities	**103 055**	**26 272**
Change in cash and cash equivalents (+/-)	**46 773**	**15 638**
Cash and cash equivalents at 1 Jan.	56 742	41 104
Cash and cash equivalents at 31 Dec.	**103 515**	**56 742**

Notes to the Financial Statements for the parent company

Measurement and timing principles

Inventories are measured at variable cost by applying the FIFO principle and the lowest value principle pursuant to Chapter 5, Section 6(1) of the Finnish Accounting Act.

Depreciable fixed assets are measured at variable cost and depreciated according to plan.

Bases of depreciation

Machinery and equipment	3 - 5 years straight-line depreciation
Intangible rights	3 - 5 years straight-line depreciation
Other long-term expenditure	3 years straight-line depreciation

No changes in the bases of depreciation

NOTES TO THE INCOME STATEMENT

Net sales by business area	**2020**	**2019**
Group internal service charges	9 144	10 319
Other net sales, internal	113	218
Other net sales, external	9	4
Total	**9 266**	**10 541**

Auditors' fees	**2020**	**2019**
Statutory auditing	127	61
Certificates and statements		1
Tax services	5	6
Other services	56	3
Total	*188*	*71*

Financial income and expenses	**2020**	**2019**
Dividend income from Group companies		25
Interest income from Group companies	462	2 369
Interest income from others	173	22
Interest costs on intra-Group liabilities	-7	-10
Interest costs to others	-1 971	-1 319
Other financial expenses	-1 408	-764
Total	**-2 751**	**322**

Taxes	**2020**	**2019**
Current taxes		0
Total		**0**

NOTES ON BALANCE SHEET ASSETS

Intangible rights	**2020**	**2019**
Acquisition cost at 1 Jan.	1 256	698
Increases	9	558
Acquisition cost at 31 Dec.	**1 265**	**1 256**
Accumulated depreciation at 1 Jan.	-731	-471
Depreciation and amortisation	-264	-260
Accumulated depreciation at 31 Dec.	**-995**	**-731**
Book value at 1 Jan.	526	228
Book value at 31 Dec.	**271**	**526**

Other long-term expenditure	2020	2019
Acquisition cost at 1 Jan.	1 722	1 425
Increases	1 357	297
Acquisition cost at 31 Dec.	**3 080**	**1 722**
Accumulated depreciation at 1 Jan.	-738	-523
Depreciation and amortisation	-587	-216
Accumulated depreciation at 31 Dec.	**-1 325**	**-738**
Book value at 1 Jan.	984	903
Book value at 31 Dec.	**1 754**	**984**

Advanced payments for intangible assets	2020	2019
Acquisition cost at 1 Jan.	771	0
Increases	0	771
Decreases	-771	0
Acquisition cost at 31 Dec.	**0**	**771**
Book value at 1 Jan.	771	0
Book value at 31 Dec.	**0**	**771**

Machinery and equipment	2020	2019
Acquisition cost at 1 Jan.	1 256	1 200
Increases	8	55
Acquisition cost at 31 Dec.	**1 264**	**1 256**
Accumulated depreciation at 1 Jan.	-855	-541
Depreciation and amortisation	-272	-314
Accumulated depreciation at 31 Dec.	**-1 127**	**-855**
Book value at 1 Jan.	400	659
Book value at 31 Dec.	**136**	**400**

Other tangible assets	2020	2019
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	2020	2019
Acquisition cost at 1 Jan.	81 692	28 201
Increases	858	54 270
Decreases	0	-780
Acquisition cost at 31 Dec.	**82 550**	**81 692**
Accumulated amortisation at 1 Jan.	-95	-95
Amortisation		0
Accumulated amortisation at 31 Dec.	**-95**	**-95**
Book value at 1 Jan.	81 596	28 106
Book value at 31 Dec.	**82 454**	**81 596**

Non-current receivables from Group companies	2020	2019
Loan receivables	2 691	1 229
Total	**2 691**	**1 229**

Current receivables from Group companies	2020	2019
Trade receivables	179	65
Loan receivables	424	724
Other receivables	1 826	722
Group limit	5 343	50 238
Total	**7 772**	**51 749**

Essential items included in adjusting entries for assets	2020	2019
Other adjusting entries for assets	183	259
Total	**183**	**259**

NOTES ON BALANCE SHEET LIABILITIES

	2020	2019
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	**100**	**100**
Invested non-restricted equity reserve at 1 Jan.	71 335	71 335
Issue of shares	20 321	
Invested non-restricted equity reserve at 31 Dec.	**91 655**	**71 335**
Retained earnings at 1 Jan.	-2 516	-4 196
Retained earnings	-99	15 675
Distribution of dividends	-7	-13 995
Repurchasing own shares	-504	
Retained earnings at 31 Dec.	**-3 126**	**-2 516**
Profit/loss for the financial year	**-1 965**	**-99**
Equity, total	**86 664**	**68 820**

Statement of distributable funds	2020	2019
Invested non-restricted equity reserve	91 655	71 335
Retained earnings	-3 126	-2 516
Profit/loss for the financial year	-1 965	-99
Total	**86 564**	**68 720**

Liabilities to Group companies	2020	2019
Trade payables	1	87
Other payables	0	42 865
Group limit	81 425	26 630
Total	**81 426**	**69 582**

Essential items included in adjusting entries for liabilities	2020	2019
Holiday pay debt with related costs	446	500
Non-wage labour cost debt	183	227
Interest debt	265	352
Total	**894**	**1 080**

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2020	2019
Loans from financial institutions	39 000	50
Total	**39 000**	**50**

Guarantees		
Pledges	10 000	0
Absolute guarantees	214	238
Total	**10 214**	**238**

Amount of credit limits	2020	2019
Credit limits available	39 003	75 005
Credit limits in use	39 003	54 005
Credit limits outstanding	**0**	**21 000**
Guarantee limits available	104 490	196 175
Guarantee limits in use	90 688	98 272
Guarantee limits outstanding	**13 802**	**97 903**

Guarantees given on behalf of other Group companies	2020	2019
Guarantees given and other commitments	36 174	81 177

Leasing agreements not included in balance sheet		
Expiring in 12 months	38	56
Expiring in more than 12 months	48	90
Total	**87**	**146**

Lease liabilities		
Construction leases, expiring in 12 months	907	1 190
Construction leases, expiring in more than 12 months	1 992	3 257
Total	**2 899**	**4 446**

Notes on personnel and members of administrative personnel

Average number of company personnel at the end of the financial year	2020	2019
Salaried employees	69	82
Total	**69**	**82**

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

Board of Directors’ proposal for the distribution of profits

The parent company’s distributable funds on the balance sheet of 31 December 2020 are EUR 86,564,458.70, of which the operating result is EUR -1,964,562.84.

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

Signatures to the Annual Report and Financial Statements

Vantaa, 17 February 2021

Seppo Laine
Chairman of the Board of Directors

Raimo Lehtiö
Member of the Board of Directors

Mikko Räsänen
Member of the Board of Directors

Anne Korkiakoski
Member of the Board of Directors

Helena Säteri
Member of the Board of Directors

Hannu Lehto
CEO

The Auditor’s Note

A report on the audit performed has been issued today.

Oulu, 17 February 2021

KPMG Oy Ab
Audit firm

Pekka Alatalo
APA

Group key figures

	2020	2019 [2]	2018 [2]	2017 [2] [3]	2016 [2]
Net sales, EUR million	544,7	667,7	721,5	597,6	361,8
Net sales, change from the previous year %	-18,4 %	-7,5 %	20,7 %	65,2 %	31,3 %
Operating result, EUR million	-2,9	-41,8	37,2	64,6	40,4
Operating result, as % of net sales	-0,5 %	-6,3 %	5,2 %	10,8 %	11,2 %
Result for the financial year, EUR million	-8,2	-35,7	28,7	51,6	31,9
Result for the financial year, as % of net sales	-1,5 %	-5,4 %	4,0 %	8,6 %	8,8 %
Return on equity (ROE), %	-7,0 %	-26,0 %	18,3 %	38,8 %	42,8 %
Return on investments (ROI), %	-0,9 %	-14,3 %	16,0 %	40,6 %	44,5 %
Equity ratio, %	38,7 %	29,6 %	42,7 %	56,2 %	60,4 %
Gearing, %	40,0 %	49,9 %	21,3 %	11,7 %	9,4 %
Net gearing ratio, %	7,0 %	115,9 %	38,5 %	-20,6 %	-44,2 %
Gross expenditure on assets, EUR million	2,0	7,7	15,9	4,5	7,6
Personnel during the year, average	1 115	1 454	1 457	1 013	566
Personnel at Dec 31	1 034	1 274	1 552	1 184	747
Equity / share	1,42	1,59	2,30	2,13	1,64
Earnings per share, issued-adjusted, EUR, basic	-0,12	-0,51	0,41	0,73	0,49
Earnings per share, issued-adjusted, EUR, diluted	-0,11	-0,51	0,41	0,73	0,49
Average number of shares during the year, issued-adjusted, basic	71 012 014	70 597 352	70 541 661	70 541 661	65 475 497
Average number of shares during the year, issued-adjusted, diluted	71 330 955	70 752 453	70 698 904	70 761 533	65 483 376
Number of shares, issue-adjusted, at the end of the year	87 089 901	70 612 735	70 541 661	70 541 661	70 541 661
Market value of share at Dec 31, EUR million	117,6	137,0	247,6	737,5	593,6
Share turnover, issue-adjusted, shares	45 969 542	54 836 449	51 905 771	19 781 317	14 425 832
Share turnover out of average number of shares, %	64,7 %	77,7 %	73,6 %	28,0 %	22,0 %
Share prices, issued-adjusted, EUR					
Highest price, EUR	2,17	4,40	11,71	11,78	8,41
Lowest price, EUR	0,98	1,22	3,32	8,08	4,56
Average price, EUR	1,37	2,20	7,54	10,12	6,63
Price at Dec 31, EUR	1,35	1,94	3,51	10,45	8,41
Dividend / share, issue-adjusted, EUR [1]	-	-	0,20	0,28	0,18
Issue-adjusted dividend payout ratio, % [1]	-	-	48,7 %	38,4 %	37,3 %
Effective dividend yield % [1]	-	-	5,6 %	2,7 %	2,2 %
Price / Earnings	-11,75	-3,84	8,65	14,33	17,27

[1] Year 2020 dividend proposal [2] Share-based key figures are issue-adjusted due share issue in 2020 [3] Restated according IFRS 15

Definitions of key figures

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

Alternative performance measures by ESMA

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

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

Shares and Shareholders

At balance sheet date, the number of shares is 87,339,410. Outstanding number of shares is 87,089,901 and the company held 249,509 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. The company held no own shares.

SHAREHOLDERS 31 DECEMBER 2020

	Number of shares	%
Lehto Invest Oy	33,914,760	38.8%
Kinnunen Mikko	1,446,454	1.7%
Saartoala Ari	1,000,485	1.1%
Sr eQ Pohjoismaat Pienyhtiö	947,045	1.1%
Danske Invest Finnish Equity Fund	915,718	1.0%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	900,000	1.0%
Keskinäinen Työeläkevakuutusyhtiö Elo	711,309	0.8%
Veikkolainen Paavo	700,073	0.8%
OP-Henkivakuutus Oy	690,235	0.8%
Sr Säästöpankki Pienyhtiöt	651,512	0.7%
10 LARGEST SHAREHOLDERS	**41,877,591**	**47.9%**
Nominee-registered	7,273,031	8.3%
Other shareholders	38,188,788	43.7%
TOTAL	**87,339,410**	**100.0%**

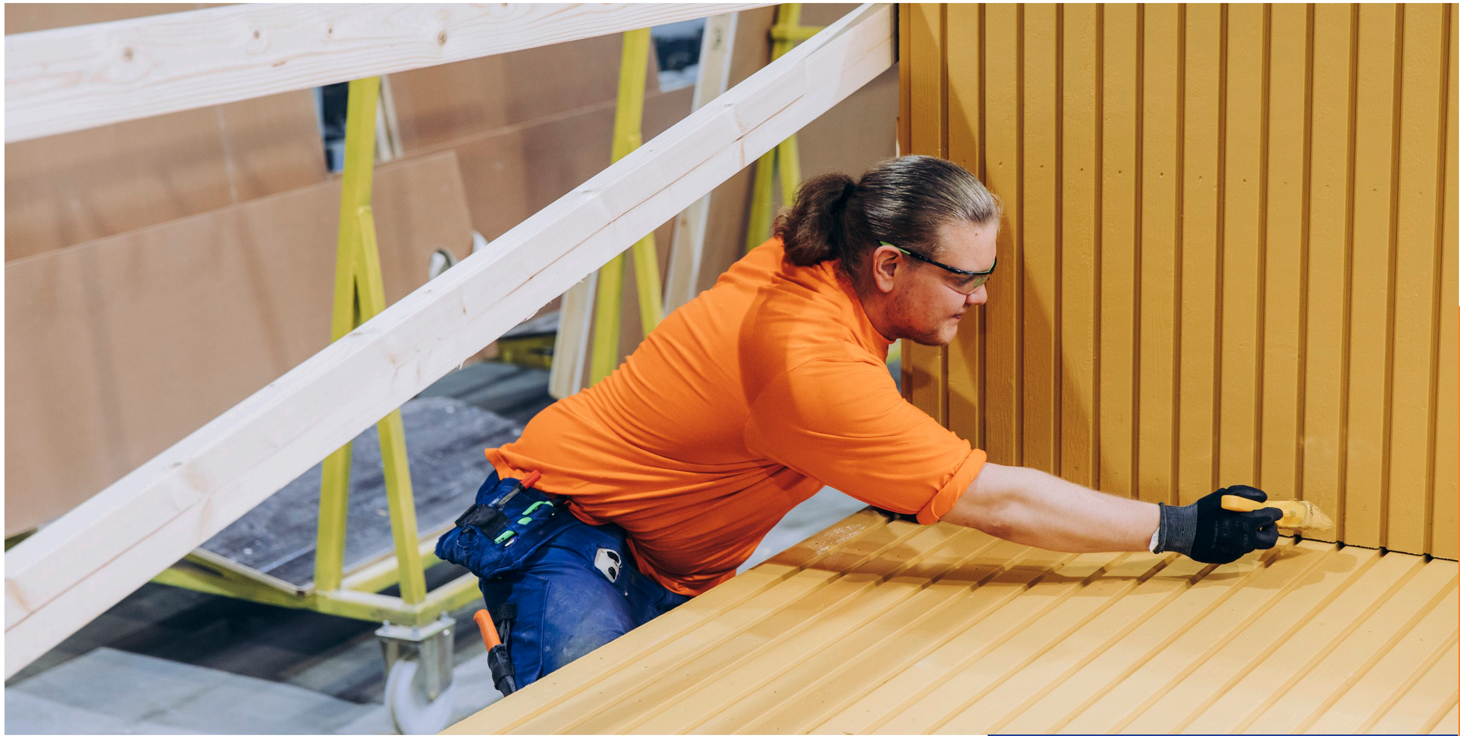
SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share-holders	%
1 - 100	206,164	0.2%	4,224	23.5%
101 – 1,000	3,666,974	4.2%	8,684	48.2%
1,001 – 10,000	13,669,373	15.7%	4,523	25.1%
10,001 – 100,000	13,732,527	15.7%	538	3.0%
100,001 – 1,000,000	13,697,354	15.7%	42	0.2%
over 1,000000	42,367,018	48.5%	4	0.0%
TOTAL	**87,339,410**	**100.0%**	**18,015**	**100.0%**
where of Nominee-registered	7,273,031	8.3%	11	6.0%

SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share-holders	%
Companies	42,279,746	48.4%	712	4.0%
Financial and insurance institutions	9,651,150	11.1%	21	0.1%
Public sector organizations	1,638,019	1.9%	3	0.0%
Households	32,994,496	37.8%	17,205	95.5%
Non-profit organizations	213,216	0.2%	31	0.2%
Foreign countries	562,783	0.6%	32	0.2%
TOTAL	**87,339,410**	**100.0%**	**18,015**	**100.0%**
where of Nominee-registered	7,273,031	8.3%	11	0.1%

Auditor´s Report



Lehto Group Plc

Auditor's Report

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lehto Group Plc (business identity code 2235443-2) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements.

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

Materiality

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

Key Audit Matters

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

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

Net sales: revenue recognition

(Refer to Accounting principles for the consolidated financial statements, section "Revenue recognition principles" and notes 2, 18,19 and 25 to the consolidated financial statements)

Key audit matters

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

Audit approach to the matters

- We evaluated the internal control over revenue and tested the effectiveness of controls over the accuracy of revenue.
- We considered significant customer contracts entered into during the financial year and evaluated adherence to the company's internal operation principles. We evaluated the definition, classification and recording of transactions arising from the contracts in relation to both Group accounting principles applied in the preparation of consolidated financial statements as well as to provisions governing the preparation of financial statements.
- In regard to invoicing and revenue recognition, we evaluated the accuracy of entries recorded in the Group's enterprise resource planning system. We performed project-based substantive audit procedures on the project revenue calculations with the objective of assessing the accuracy of both the said calculations and profit margin recognized as well as the balances of receivables and received advance payments arising from contracts with customers presented in the financial statements.

Valuation of inventories

(Refer to Accounting principles for the consolidated financial statements, section "Inventories" and note 18 to the consolidated financial statements)

Key audit matters

- The inventory balance comprises 35 % of the total assets in the consolidated balance sheet.
- A significant proportion of the inventory balance is related to the capitalised cost of unfinished projects, which is based on the project-specific information produced by the enterprise resource planning system.

Audit approach to the matters

- We considered both the integrity of operations of the enterprise resource planning system, material to the reporting of Group companies' inventories, as well as the effectiveness of related general IT controls.
- We tested the internal controls in place over the cost monitoring of projects and performed substantive audit procedures aimed at assessing the accuracy of inventory valuation.

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

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

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report 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 8 years. Lehto Group Plc became a public interest entity on 28 April 2016. We have been acting as the auditors of the company for the entirety of the duration that it has been a public interest entity.

Other Information

The Board of Directors and the CEO are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Oulu, 17 February 2021

KPMG Oy Ab

Pekka Alatalo
Authorised Public Accountant, KHT