Financial Statements 2022

Lehto Group Plc

Financial Statements 2022

Consolidated statement of comprehensive income, IFRS

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

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

Consolidated balance sheet, IFRS

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

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

Consolidated cash flow statement, IFRS

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

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

Consolidated statement of changes in equity, IFRS

	Capital attributable to equity holders of the parent company						
	Share capital	SVOP - Reserve for invested unrestricted equity	Translation difference	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity on 1 January 2021	**100**	**88 695**	**-241**	**35 076**	**123 629**	**7**	**123 636**
Comprehensive income							
Result for the financial period				-32 615	**-32 615**	1	**-32 614**
Other comprehensive income items							
Translation difference			-13		**-13**		**-13**
Total comprehensive income			***-13***	***-32 615***	***-32 628***	***1***	***-32 627***
Transactions with equity holders							
Share-based compensation				-71	**-71**		**-71**
Transactions with equity holders, total				***-71***	***-71***		***-71***
Equity on 31 December 2021	**100**	**88 695**	**-254**	**2 389**	**90 930**	**8**	**90 938**
Equity on 1 January 2022	**100**	**88 695**	**-254**	**2 389**	**90 930**	**8**	**90 938**
Comprehensive income							
Result for the financial period				-26 652	**-26 652**	1	**-26 651**
Other comprehensive income items							
Translation difference			25		**25**		**25**
Total comprehensive income			*25*	*-26 652*	***-26 627***	*1*	***-26 626***
Transactions with equity holders							
The equity component separated from the convertible bond				2 231	**2 231**		**2 231**
Share-based compensation				28	**28**		**28**
Transactions with equity holders, total				*2 260*	***2 260***		***2 260***
Equity on 31 December 2022	**100**	**88 695**	**-229**	**-22 003**	**66 563**	**9**	**66 571**

Accounting principles for the consolidated financial statements

Group basic information

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

Lehto Group Plc's Board of Directors approved the financial statements on 14 February 2023. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements. Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland.

Continuity of operations

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

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

Impacts of the Covid-19 pandemic and war in Ukraine

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

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

Accounting principles for the financial statements

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2022. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation, complementing the IFRS regulations.

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

Principles of consolidation

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

Non-current assets held for sale and discontinued operations

Non-current assets and assets and liabilities related to discontinued operations are classified as held for sale if their carrying amounts are expected to be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale presupposes that the sale is highly probable, the asset in its current condition is immediately available for sale on normal terms, management is committed to the sale of the asset and the sale is expected to take place within one year of the classification. Before an asset or a disposal group is classified as held for sale, its carrying amounts are determined in accordance with the applicable IFRS standards. From the date of classification, non-current assets held for sale shall be measured at the lower of carrying amount and fair value less costs to sell. Depreciation is no longer recognized for property, plant and equipment and intangible assets held for sale. Assets held for sale, disposal groups, items recognized in other comprehensive income related to assets held for sale and liabilities included in disposal groups are presented in the balance sheet separately from other items.

A discontinued operation is a part of the Group that has been disposed of or classified as held for sale and that meets the criteria for classification as a discontinued operation in accordance with IFRS 5. The result of discontinued operations is presented as a separate item in the consolidated income statement and the figures for the comparison period have been adjusted accordingly.

The pipeline renovations operations sold during the fiscal year, as well as Swedish operations discontinued in previous year, have been classified as discontinued operations in these financial statements. Continuing and discontinued operations are presented separately in the consolidated income statement. Discontinued operations are presented as a separate item and the comparative information has been restated accordingly. Internal transactions between discontinued operations have been eliminated from the figures.

The discontinued operations and assets held for sale are described in the note "Discontinued operations and Non-current assets held for sale".

Property, plant and equipment

Property, plant and equipment are measured at the original acquisition price less accumulated depreciation and impairments. They are depreciated during their estimated useful lives. The Group's property, plant and equipment include machinery and equipment, factory property in own use as well as other tangible assets, which mainly consist of capitalised renovation expenses for rental apartments. The residual value, useful lives and method of depreciation of property, plant and equipment are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit. The amortisation period for machinery and equipment is 3–5 years.

Goodwill

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

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

Other intangible assets

Customer relations

Customer relationships are intangible assets arising from a business combination. Customer relationships based on agreements acquired in a business combination are recognized at fair value at the time of acquisition. They have a finite useful life and are therefore carried at cost less accumulated depreciation. The amortization period for customer relationships was 5 years. The asset has been depreciated during the comparative year.

Other intangible assets

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

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

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

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

Investment properties

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

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

Impairment of intangible assets and property, plant and equipment

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

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

Inventories

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

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

Financial assets and liabilities

Financial assets

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

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

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

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

Financial assets recognised at amortised cost

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

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

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

Financial assets at fair value through profit or loss

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

Financial liabilities

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

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

Capitalisation of borrowing costs

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

Provisions

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

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

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

Leases

Group as lessee

The Group has long-term of land leases related to developer-contracted construction, which often have a lease period of up to 50-70 years. Land leases related to inventories are in the possession of the company during the project design and construction phase, that is, only a few years, but under IFRS 16 they must be classified as right-of-use assets and liabilities.

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

Right-of-use in machinery and equipment are mostly leases for office premises and small machinery and equipment.

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

Group as lessor

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

Sale and leaseback

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

Revenue recognition principles

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

Performance obligations

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

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

Transaction price

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

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

Revenue recognition principles related to construction projects

If control of a project is transferred to the customer over time, and the performance obligation is therefore fulfilled over time, the construction project should be recognised as income over time according to the degree of completion. If the performance obligation is not fulfilled over time, the sale should be recognised at a point in time.

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

Sales recognised as revenue over time

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

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

Sales recognised as revenue upon delivery

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

The Group has been able to take out so-called RS loans for developer contracting projects. RS loans are provided by credit institutions under certain terms and condition for designated housing construction sites. RS loans are construction-time loans for housing company shares for sale, and in such projects the total purchase prices obtained from the sale of housing units, i.ee transaction prices, include both the purchase prices paid by customers and the RS loan shares for apartments. The RS loan shares for the apartments are transferred from the company to the buyer in connection with the sale of the apartment share, and they are taken into account in revenue recognition as part of the transaction price. RS loans raised for developer contracting projects in progress are presented in the balance sheet as interest-bearing liabilities for unsold apartments (in the breakdown “Debts on shares in unsold housing and real estate company shares in progress ” in the note “Financial liabilities”) and for sold apartments in current non-interest-bearing liabilities (note “Trade payables and other non-interest-bearing liabilities”, in the breakdown “Liabilities to customers for constructing contracts (advances received), Debts on shares in unsold housing and real estate company shares in progress). Liabilities to customers for constructing contracts also show the purchase prices paid by customers. Liabilities to customers for constructing contracts upon completion of the project are recognized as income in revenue. Net sales from developer contracting housing projects is recognized as income upon delivery when the control of housing share is transferred to the customer.

Revenue recognition principles related to other incomes

Sales recognised as rental income

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

Recognition of interest and dividend income

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

Operating result

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

Employee benefits

Pension obligations

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

Share-based payments

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

Related party transactions

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

Income taxes

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

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

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

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

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

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

Stage of completion revenue recognition

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

Inventories

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

Provisions

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

Goodwill impairment testing

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

Deferred tax assets

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

New and revised standards and interpretations

The following new and amended standards relating to preparing consolidated financial statements must be applied in financial periods starting on 1 January 2022 or thereafter.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Annual Improvements to IFRS Standards 2018–2020

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

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 12 Income Taxes

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

Following the amendment to IAS 37, when an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs. The amendment has no significant impact on the consolidated financial statements.

The following new and amended standards for the preparation of consolidated financial statements are effective for financial periods starting on or after 1 January 2023:

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

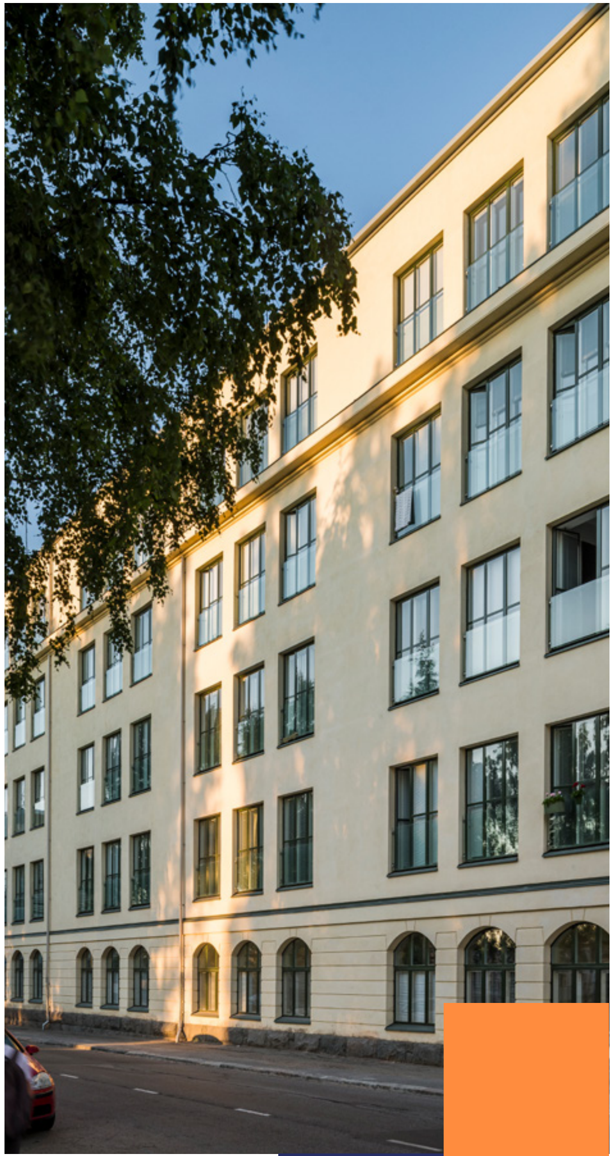
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies

Amendments to IAS 8 Accounting Policies – Definition of Accounting Estimates

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

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

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



Notes to the consolidated financial statements

1. Operating segments

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

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

Main customers

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

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

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

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

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

Discontinued operations

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

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

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

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

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

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

Non-current assets held for sale

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

3. Net sales

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

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

Revenue recognised that was included in the contract liability balance (liabilities to customers for constructing contracts) at the beginning of the year was EUR 18.8 (24.5) million.

4. Other operating income

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

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

5. Employee benefit expenses

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

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

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

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

6. Depreciation

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

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

Depreciation of investment properties	**2022**	**2021**
Buildings and structures	17	18
Total	**17**	**18**
Depreciation and impairments, total	**5 885**	**6 959**

7. Other operating expenses

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

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

8. Financial income and expenses

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

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

9. Income taxes

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

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

10. Share-based key figures

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

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

	2022	2021
Issue-adjusted number of outstanding shares at the end of the year	87,311,287	87,159,445
Equity / share	0.76	1.04
Dividend per share paid in fiscal year	-	-
Dividend proposal per share from fiscal year	-	

11. Goodwill

Cash-generating unit: Building Services	2022	2021
Goodwill	4 624	4 624

For the purposes of goodwill impairment testing, recoverable cash flows have been determined based on value-in-use calculations. A cash generating unit is the acquired business entity to which goodwill relates. The cash flows of cash generating units for the next five years have been discounted to their present value and the discount rate used is the weighted average cost of capital (WACC) determined for Lehto. Cash flows after five years – the residual value – have not been taken into consideration in the calculations. Cash flow forecasts are based on the strategic forecasts for 2023-2027.

The pre-tax weighted average cost of capital (WACC) has been remeasured every year. Remeasuring is based on the weighting of the indicators of an industrial comparison group with the average capital structure in the sector. This measurement takes into account indicators such as sector-specific beta value, country risk, market risk premium, interest on borrowing in the sector, risk-free interest rate, and the risk premium related to the company's size class. According to the calculation, the discount rate to be used in the 2022 financial statements is 13.3% (8.2% in 2021).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2021. No material changes with an impact on expected cash flow from operations has occurred in the business environment compared with the previous financial year. Potential material changes in the business environment that affect business cash flow expectations, as well as a weakening market, are taken into account in the impairment testing. Impairment testing on 31 December 2022 did not indicate a need to recognise impairment.

A sensitivity analysis was performed in connection with impairment testing; as a result, the net sales and operating result forecast for the next five years was lowered by 15% and the discount rate was increased by 5 percentage points. The value of the asset item was deemed to be dependent on the operating result in particular. No need for recognition of impairment was found on the basis of the sensitivity analysis. The share of goodwill in equity is very moderate, 6.9%.

12. Other intangible assets

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

Other intangible assets 2021	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2021	4 282	8 100	12 382
Increases		726	726
Acquisition cost at 31 Dec. 2021	**4 282**	**8 826**	**13 108**
Accumulated depreciation and amortisation at 1 Jan. 2021	-4 057	-3 779	-7 835
Depreciation, continuing operations	-225	-1 244	-1 469
Depreciation and impairment, discontinued operations		-1 814	-1 814
Accumulated depreciation and amortisation at 31 Dec. 2021	**-4 282**	**-6 837**	**-11 118**
Carrying amount at 1 Jan. 2021	225	4 322	4 547
Carrying amount at 31 Dec. 2021	**0**	**1 989**	**1 989**

13. Property, plant and equipment

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

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

14. Investment properties

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

Investment properties 2021	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2021	202	809	1 011
Acquisition cost at 31 Dec. 2021	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2021		-300	-300
Depreciation		-18	-18
Accumulated depreciation and amortisation at 31 Dec. 2021		**-318**	**-318**
Carrying amount at 1 Jan. 2021	202	509	757
Carrying amount at 31 Dec. 2021	**202**	**491**	**693**

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

Fair values of investment properties

The Group's investment properties are properties available for rent. Investment properties are recognised using the acquisition cost method and they are not valued at fair value through profit and loss.

Balance sheet values and fair values of investment properties	Valuation method	Level	Fair value 2022	Fair value 2021
Business property	Acquisition cost	3	558	580
Land area	Acquisition cost	3	202	202
			760	**782**

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

15. Other financial assets

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

Financial assets recognised through profit and loss are unlisted share investments. The shares are recognised at acquisition cost because there is no quoted price for fully similar instruments in active market. Financial assets recognised through profit and loss are classified at level 3 in the hierarchy.

16. Non-current receivables

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

17. Deferred tax assets and liabilities

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

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

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

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

Deferred tax assets 2021	1 Jan 2021	Recognised in income statement	31 Dec 2021
Fixed assets internal margin	50	-13	37
Tax losses carried forward	12 124	-0	12 123
Adjustment from discontinued operations, confirmed losses		5	-2 670
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	3 060	1 078	4 138
Other temporary differences	33	2	35
Exchange rate difference in opening balance	134	-0	133
Total	**15 401**	**1 071**	**13 797**

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

18. Inventories

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

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

19. Trade and other receivables

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

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

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

The carrying amount of receivables corresponds to their fair value.

20. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term and highly liquid investments. The fair value of the investment is level 1 and it is determined using the buying rate of the counterparty at the end of the reporting period.

21. Cash and cash equivalents

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

22. Equity

	Number of shares	Share capital	SVOP - Reserve for invested unrestricted equity	Total
31 December 2020	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	249 509			
Outstanding shares on 31 Dec.2020	**87 089 901**			
31 December 2021	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	179 965			
Outstanding shares on 31 Dec.2021	**87 159 445**			
31 December 2022	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	28 123			
Outstanding shares on 31 Dec.2022	**87 311 287**			

Shares and share capital

At balance sheet date, the number of shares totalled 87,339,410, of which the company holds 28,123 shares. The share capital is EUR 100,000. The company has one series of shares, and all shares are of the same class. Each share entitles its holder to one vote in the General Meeting of Shareholders and to an equal amount of dividend.

Transfer of own shares

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

Invested non-restricted equity reserve

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

Share-based compensations

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

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

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2020-2021 correspond to the value of an approximate maximum total of 1,600,000 Lehto Group Plc shares including also the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into the shares.

After the earning period, the gross performance bonus entered for the participant in the performance bonus plan will be converted into shares. When converting the performance bonus into shares, the trade volume weighted average quotation on Nasdaq Helsinki Oy (conversion rate) will be the weighted trading rate of the 20 trading days following the date of release of the company's financial statement bulletin. In spring 2022 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2019 of the long-term incentive plan adopted by Lehto in 2019. In the share issue 151,842 Lehto Group Plc's shares owned by the company were issued free of consideration to group key employees in accordance with the terms and conditions of the plan. The Issue Shares corresponded to approximately 0.17 per cent of Lehto's shares and votes prior to the share issue. For the earning period 2020, the performance bonus for members of the share plan was EUR 193,000, which converted into 103,782 shares. For the earning period 2021 the performance bonus for members of the share plan was EUR 15,000, converted to shares 52,000.

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

Arrangement	Earning period 2020	2021
Nature of arrangement	Shares	Shares
Date of issue	20 Feb 2020	18 Feb 2021
Number of instruments issued (issued-adjusted)	103,782	52,000
Share price on grant date (issued-adjusted)	1.89	1.59
Period of validity	3 years	3 years
Expected performance, %	100 %	100 %
Terms and conditions of conferral of right	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms
Carried out	As shares	As shares

For the 2020 and 2021 earnings periods, the earnings-based terms have been met in full. The number of shares issued on the balance sheet date is based on an estimate.

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

In addition to long-term incentive plan, the Company has restricted share plan. The reward from the restricted share plan is based on a key employee’s valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company’s shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee. In year 2022, there were no employee in restricted share plan.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash. No key personnel were covered by the restricted share plan in 2022.

23. Provisions

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

Provisions 2021	Guarantee provisions	Onerous projects	Restructuring provision	Total
1 Jan. 2021	10 110	2 411		12 522
Increases	7 939	8 672	638	17 249
Decreases	-7 742			-7 742
31 Dec. 2021	**10 307**	**11 083**	**638**	**22 028**
of which non-current	5 689			5 689
of which current	4 618	11 083	638	16 340

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

24. Financial liabilities

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

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

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

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

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

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

Convertible bonds

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

Terms of convertible bonds

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

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

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

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

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

26. Financial risk management

The Group's main sources of funding consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has some revolving credit limits. At the end of 2022, the cash and cash equivalents amounted to EUR 12.9 million (EUR 32.5 million 31 December 2021) and financial assets at fair value through profit or loss EUR 0.3 (0.3) million. The amount of credit limits at the end of 2022 was EUR 13.0 million, which all was in use.

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

Revolving Credit Facility

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

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

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

Loan facility with the Tax Administration

In July 2020, Lehto made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 21.0 million. The VAT payment arrangement was made when the Tax Administration offered companies the possibility to prepare for any potential impacts of the coronavirus pandemic by loaning back VAT paid in spring 2020. The repayment period under the payment arrangement was 22 months and the first instalment was paid in September 2020. The interest rate on the payment arrangement was 2.5%. The payment arrangement loan was fully paid off during 2022.

Foreign exchange risk

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

Interest rate risk

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

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

Credit risk

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

Liquidity risk

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

Analysis of debt maturity

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

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

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

Capital management

The objective of the Group's capital management is to support business operations and to increase shareholder value and returns for shareholders in the best possible way. Improving the capital structure ensures reasonable capital costs.

27. Leases

Group as lessee

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

Right-of-use assets and lease liabilities 2022	Inventories	Property, plant and equipment	Lease liabilities
1 Jan. 2022	86 620	3 732	90 445
Increases	35 952	1 512	40 087
Decreases	-50 012	-464	-50 493
Depreciation / instalments	-1 664	-1 288	-2 193
31 Dec. 2022	**70 897**	**3 492**	**77 847**

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

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

EUR 1,102 (1,166) thousand was recognised as expenses from low-value and short leases during the financial year. In addition to low-value IT machinery and equipment rents, these include short-term (maximum 12 months) rents for tool, machine and site facilities related to the construction industry. The total cash flow leases amounted to EUR 2,467 (2,370) thousand and from land leases to EUR 3,957 (3,802) thousand.

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

28. Liabilities and guarantees

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

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

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

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

Absolute guarantees include lease guarantees given on behalf of Group companies. These leased premises are used by a subsidiary to conduct operational business. The pledges are inventory items and other financing assets pledged as collateral for financial institution loans and loans for housing companies under construction. Pledges are presented at carrying amount.

29. Disclosure of interests in other entities

Group parent/subsidiary relationships

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

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

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

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

30. Related party transactions

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

Transactions with related parties

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

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

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

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

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

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

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

Income statement for parent company, FAS

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

Balance sheet for parent company, FAS

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

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

Cash flow statement for the parent company, FAS

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

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

Notes to the financial statements for the parent company

Measurement and timing principles

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

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

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

Bases of depreciation

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

No changes in the bases of depreciation.

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

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

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

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

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

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

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

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

Other tangible assets	2022	2021
Acquisition cost at 1 Jan.	1	1
Acquisition cost at 31 Dec.	**1**	**1**
Book value at 1 Jan.	1	1
Book value at 31 Dec.	**1**	**1**

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

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

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

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

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

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

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

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

Guarantees and contingent liabilities

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

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

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

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

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

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

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

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

Board proposal for the use of the result shown on the balance sheet

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

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

Signatures to the Annual Report and Financial Statements

Vantaa, 14 February 2023

Eero Sihvonen
Chairman of the Board of Directors

Hannu Lehto
Member of the Board of Directors

Anne Korkiakoski
Member of the Board of Directors

Helena Säteri
Member of the Board of Directors

Jani Nokkanen
Member of the Board of Directors

Juuso Hietanen
CEO

The Auditor's Note

A report on the audit performed has been issued today.

Oulu, 14 February 2023

KPMG Oy Ab
Audit firm

Pekka Alatalo
APA

Group key figures

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

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

Definitions of key figures

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

Alternative performance measures by ESMA

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

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

Shares and shareholders

At balance sheet date, the number of shares is 87,339,410. Outstanding number of shares is 87,311,287 and the company held 28,123 treasury shares. The share capital is EUR 100,000. The company has one share class and all shares are of the same class. The company's shares have no par value, and the Articles of Association do not specify the minimum or maximum value of shares or share capital. Each share entitles its holder to one vote and to an equal amount of dividend.

Shareholders 31 December 2022

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

Shareholding breakdown

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

Shareholdings by sector

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

Auditor’s Report 2022

Lehto Group Plc

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

Auditor's Report 2022

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lehto Group Plc (business identity code 2235443-2) for the year ended 31 December 2022. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

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

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

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 7 to the consolidated financial statements.

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

Materiality

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

Key Audit Matters

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

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

Net sales: revenue recognition

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

The key audit matter

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

How the matter was addressed in the audit

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

Valuation of inventories

(Refer to Accounting principles for the consolidated financial statements and note 18 to the consolidated financial statements)

The key audit matter

- The inventory balance comprises 64 % of the total assets in the consolidated balance sheet.
- A significant proportion of the inventory balance is related to the capitalised cost of unfinished projects, which is based on the project-specific information produced by the enterprise resource planning system.

How the matter was addressed in the audit

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

Group's financing

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

The key audit matter

- As disclosed in note 26, the company has a credit facility agreement, of which EUR 13.0 million was in use on the balance sheet date. At the end of the financial year, the covenant terms of the credit facility agreement were not met. On the date of signing the financial statements the company has obtained a waiver from creditors to temporarily exceed the covenant limits set in the agreement.
- The financial statements have been prepared on a going concern basis. At the time of publication of the financial statements, the company assesses its working capital to be sufficient to cover its requirements over the next 12 months, considering the ongoing actions to ensure sufficient financing and the 2023 business plan.

How the matter was addressed in the audit

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

- We inspected the financing arrangements which have been completed during the financial year 2022 and their accounting treatment.
- As part of our year-end audit procedures, we assessed the accuracy of classification of financial liabilities, and considered the adequacy and appropriateness of the disclosures provided on the financial position in the consolidated financial statements.

Subsidiary shares in the parent company's balance sheet

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

The key audit matter

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

How the matter was addressed in the audit

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting for the financial year ended 31 December 2013 and our appointment represents a total period of uninterrupted engagement of 10 years. Lehto Group Plc became a public interest entity on 28 April 2016.

Other Information

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

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

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

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

Oulu, 14 February 2023
KPMG Oy Ab

Pekka Alatalo
Authorised Public Accountant, KHT