

A photograph showing the exterior of a modern apartment complex. The buildings feature a mix of white and red brick facades, large glass windows, and metal railings for balconies. The sky is a clear, vibrant blue with a few wispy white clouds. The perspective is from a low angle, looking up at the buildings.

2019

LEHTO GROUP PLC
Financial Statements



Financial Statements 2019

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Consolidated statement of Comprehensive Income, IFRS

	Note	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Net sales	2	667,701	721,479
Other operating income	3	1,500	2,988
Changes in inventories of finished goods and work in progress		-35,745	107,063
Capitalised production		46	8,001
Raw materials and consumables used		-224,967	-331,740
External services		-335,618	-359,467
Employee benefit expenses	4	-82,214	-82,856
Depreciation and amortisation	5	-8,203	-3,492
Other operating expenses	6	-24,337	-24,794
Operating result		-41,836	37,181
Financial income	7	262	171
Financial expenses	7	-3,973	-1,184
Share of associated company profits (losses)	14	0	44
Profit before taxes		-45,547	36,213
Income taxes	8, 16	9,797	-7,504
Profit for the financial year		-35,750	28,709

	Note	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Profit attributable to			
Equity holders of the parent company		-35,750	28,708
Non-controlling interest		1	1
		-35,750	28,709
Components of other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Translation difference	22	-146	
		-146	0
Comprehensive profit attributable to			
Equity holders of the parent company		-35,897	28,708
Non-controlling interest		1	1
		-35,896	28,709
Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share	9		
Earnings per share, basic		-0.61	0.49
Earnings per share, diluted		-0.61	0.49



Consolidated Balance Sheet, IFRS

ASSETS	Note	31 Dec 2019	31 Dec 2018
Non-current assets			
Goodwill	10	4,624	4,624
Other intangible assets	11	4,697	2,242
Property, plant and equipment	12	26,577	22,940
Investment properties	13	730	737
Investments in associated companies	14		859
Other financial assets	15	775	214
Receivables	16	1,915	24
Deferred tax assets	17	16,473	6,093
Non-current assets total		55,790	37,731
Current assets			
Inventories	18	250,441	238,213
Trade and other receivables	19	86,307	136,584
Current tax assets	19	0	2,383
Financial assets at fair value through profit or loss	20	313	311
Cash and cash equivalents	21	58,911	53,070
Current assets total		395,972	430,561
TOTAL ASSETS		451,762	468,292

	EQUITY AND LIABILITIES	Note	31 Dec 2019	31 Dec 2018
Equity				
Share capital			100	100
Invested non-restricted equity reserve			69,155	69,155
Translation adjustment			-319	-173
Retained earnings			78,934	64,302
Profit for the financial year			-35,750	28,708
Capital attributable to equity holders of the parent company			112,120	162,093
Non-controlling interest			6	264
Equity, total		22	112,126	162,357
Non-current liabilities				
Deferred tax liabilities		17	552	715
Provisions		23	9,384	10,375
Financial liabilities		24	5,928	20,101
Lease liabilities		24	44,658	
Other non-current liabilities		25	122	5,591
Non-current liabilities, total			60,645	36,782
Current liabilities				
Advances received		25	73,220	88,252
Trade and other payables		25	67,110	83,360
Current income tax liabilities		25	83	1,738
Financial liabilities		24	136,431	95,802
Lease liabilities		24	2,147	
Current liabilities, total			278,992	269,153
Liabilities, total			339,636	305,935
TOTAL EQUITY AND LIABILITIES			451,762	468,292



Consolidated Cash Flow Statement, IFRS

	Note	31 Dec 2019	31 Dec 2018		Note	31 Dec 2019	31 Dec 2018
Cash flow from operating activities							
Result for the financial year		-35,750	28,709				
<i>Adjustments:</i>							
Non-cash items		3,247	4,852				
Depreciation and amortisation		8,203	3,492				
Share of associated company profits (losses)			-44				
Financial income and expenses		3,711	1,013				
Capital gains		-843	-442				
Dividends received		-0	-0				
Income taxes		-9,797	7,504				
<i>Changes in working capital:</i>							
Change in trade and other receivables		48,912	-26,161				
Change in inventories		27,893	-105,339				
Change in trade and other payables		-53,578	78,657				
Interest paid and other financial expenses		-3,338	-971				
Financial income received		262	171				
Income taxes paid		-19	-9,753				
Net cash from operating activities		-11,098	-18,312				
Cash flow from investments							
Investments in property, plant and equipment						-4,051	-14,579
Investments in intangible assets						-3,601	-1,323
Capital gains from other investments							166
Sales of associated companies						1,638	291
Proceeds from sale of property, plant and equipment and intangible assets						63	9
Financial assets at fair value through profit or loss						-577	1
Repayments of loan receivables							1,746
Loans granted						-36	
Dividends received						0	0
Net cash from investments						-6,563	-13,689
Cash flow from financing							
Loans drawn						24	132,644
Loans repaid						24	-90,109
Lease liabilities paid						24	-4,719
Acquisition of non-controlling interest							-280
Dividends paid							-13,995
Net cash used in financing activities						23,541	17,464
Change in cash and cash equivalents (+/-)							
Effects of exchange rate change						-37	-89
Cash and cash equivalents at the beginning of the financial year						53,381	68,008
Cash and cash equivalents at the end of the financial year					20, 21	59,224	53,381



Consolidated statement of Changes in Equity, IFRS

CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Invested non-restricted equity reserve	Translation adjustment	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2018	100	69,155	-79	81,271	150,447	271	150,718
Effect of IFRS 2 standard amendment				2,299	2,299		2,299
Adjusted equity at 1 January 2018	100	69,155	-79	83,569	152,746	271	153,017
<i>Comprehensive income</i>							
Profit or loss for the financial period				28,708	28,708	1	28,709
Total comprehensive income				28,708	28,708	1	28,709
<i>Transactions with equity holders</i>							
Distribution of dividends				-19,797	-19,797		-19,797
Share-based compensation				514	514		514
Other changes			-94	16	-78	-8	-86
Transactions with equity holders, total			-94	-19,267	-19,361	-8	-19,369
Equity at 31 December 2018	100	69,155	-173	93,010	162,093	264	162,357
Equity at 1 January 2019	100	69,155	-173	93,010	162,093	264	162,357
<i>Comprehensive income</i>							
Profit or loss for the financial period				-35,750	-35,750	1	-35,750
Other comprehensive income items							
Translation difference			-146		-146		-146
Total comprehensive income			-146	-35,750	-35,897	1	-35,896
<i>Transactions with equity holders</i>							
Distribution of dividends				-13,995	-13,995		-13,995
Share-based compensation				-55	-55		-55
Other changes			-27		-27		-27
Transactions with equity holders, total				-14,076	-14,076		-14,076
<i>Changes in holdings in subsidiaries</i>							
Acquisitions of non-controlling interest not resulting change in control						-259	-259
Equity at 31 December 2019	100	69,155	-319	43,184	112,120	6	112,126

Accounting principles for the consolidated Financial Statements

Group basic information

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

Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland. Lehto Group Plc's Board of Directors approved the financial statements on 19 February 2020. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2019. 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 Group adopted the IFRS in the financial reporting on 1 January 2013 and applied in this connection IFRS 1 First-time Adoption of International Financial Reporting Standards. The date of transition was 1 January 2012.

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

Principles of consolidation

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

of shareholders' equity attributable to non-controlling shareholders is shown as a separate item under shareholders' equity.

Property, plant and equipment

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

Goodwill and other intangible assets

Goodwill

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

The Group has applied a relief in accordance with IFRS 1 from applying IFRS 3 on business transactions before the transition date; therefore, the deemed cost of goodwill is measured at carrying amount in accordance with previous GAAP.

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

Other intangible assets

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

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

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

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

Investment properties

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

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

Impairment of intangible assets and property, plant and equipment

At the end of each reporting period the Group assesses whether there is any indication that an asset may be

impaired. If any such indication exists, the recoverable amount from the asset item is estimated. Goodwill's recoverable amount is estimated annually regardless of whether there is any indication of impairment. Goodwill is also tested for impairment whenever there is any indication that the value of a unit may be impaired.

Goodwill is tested for impairment at the level of individual cash-generating units, which is the lowest unit level mainly independent of other units and the cash flows of which are separable and mainly independent of cash flows of other corresponding units. A cash-generating unit is the lowest level within the Group at which goodwill is monitored for the purposes of internal management.

Recoverable amount is the higher of a unit's fair value less costs of disposal and its value in use. Value in use is the estimated discounted future net cash flows expected to be derived from the cash-generating unit. The discount rates used are pre-tax and reflect current market assessments of the time value of money and specific risks relating to the relevant asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is recognised as an expense. An impairment loss on a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. At recognition of the impairment loss, the useful life of the depreciated assets is reassessed. Impairment loss of other assets than goodwill is reversed in the case that a change has occurred in the estimates used in measuring the recoverable amount of the asset. A reversal of an impairment loss shall not exceed the

carrying amount that would have been determined had no impairment loss been recognised in prior years. Impairment losses on goodwill are never reversed.

Associated companies

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

Joint arrangements

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

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 in two categories: those recognised at amortised cost and those at fair value through profit or loss.

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

All purchases and sales of financial assets are recognised on the transaction date when the Group commits to the purchase or sale of the financial instrument. Financial

assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets recognised at amortised cost

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term

and highly liquid investments. However, investments are subject to a greater risk of change in value than cash and cash equivalents.

Cash and cash equivalents

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

Financial liabilities

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

Derivatives

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

Capitalisation of borrowing costs

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

Provisions

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

guarantee period, the provision is released through profit or loss.

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

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

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

Leases

Group as lessee

IFRS 16 Leases has replaced IAS 17 as from 1 January 2019. The Group has long-term leases for land related to inventories; their lease period is often as long as 50-60 years. Land leases related to inventories are in the possession of the company during the project design

and construction phase, that is, only a few years, but under IFRS 16 they must be classified as assets and liabilities. Most of the Group's other valid leases are for office premises and small machinery and equipment.

When measuring a lease liability, the present value of future payments takes into account any incentives, variable rents (indexes or based on price or other variable), residual value of the asset item, the realisation price of any purchase options or sanctions imposed due to termination of the lease. In fixed-term agreements, the lease period is the non-cancellable lease period and the probability of exercising an extension.

The discount rate of a lease is the interest rate implicit in the lease or, if said rate cannot be readily determined, the incremental borrowing rate. Interest expenses on leases are presented in financial expenses. Leases are also recognised as assets and depreciated on a straight-line basis over the lease period. Leases with a lease period of less than one year or value of less than EUR 5,000 are expensed during the lease period.

The Group has adopted the standard as from 1 January 2019 using a simplified procedure, without adjusting comparative information. The reconciliation at the date of transition is presented in the notes under "Leases".

Group as lessor

The Group is the lessor of one investment property and individual inventory shares. Rental income from them is presented in net sales. In addition, the company has rented out one business premise during the financial

year. Its rental income is presented in other operating income. The Group is not a lessor in any other leases.

Revenue recognition principles

Sales recognised as revenue over time

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

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

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

Sales recognised as revenue upon delivery

If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time. Property construction projects in which the buyer has not control over the property are recognised upon delivery when the property has been completed and control has been transferred to the buyer. Net sales are recognised at the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or properties to a customer, with the exception of amounts collected on behalf of third parties.

For apartments sold in the construction phase, control is deemed to have transferred upon completion, and for completed apartments, upon sale. Payments received from sold housing and real estates shares in progress are disclosed in Note "Trade payables and other non-interest-bearing liabilities" under "Advances received, revenue recognised upon delivery".

Recognition of interest and dividend income

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

Operating profit

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. The Group has defined it as follows: operating profit is the net sum which is formed by adding other operating income to net sales and then deducting changes in the inventory of finished goods and work in progress, raw materials and consumables used, external 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 have influence through ownership or management. Related parties also include associated companies and joint ventures. Transactions with related parties are disclosed in Note "Related party transactions".

Income taxes

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

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

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

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

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

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

Stage of completion revenue recognition

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

Inventories

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

Provisions

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

Goodwill impairment testing

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

New and revised standards and interpretations

The following new and amended standards relating to preparing consolidated financial statements must be applied in financial periods starting on 1 January 2019 or thereafter.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 and IAS 28 Investments in Associates and Joint Ventures
- Amendments to IFRS 19
- Annual improvements to IFRS, 2015-2017 cycle

IFRS 16 "Leases", supersedes IAS 17 and Lehto adopted the new IFRS 16 Leases standard as of 1 January 2019. The standard requires all leases, with some exceptions, to be recognised as assets and liabilities in the lessee's balance sheet. At the time of adoption on 1 January 2019, the lease liability amounted to EUR 110 million and the corresponding fixed asset to EUR 9 million and inventories to EUR 101 million. Adoption of this standard does not have a significant impact on Lehto's net sales or operating result, but affects several balance

sheet key indicators, such as net gearing ratio (which will increase) and equity ratio (which will decrease). The Group uses a simplified procedure in the adoption of the standard, without adjusting comparative information. Leases are disclosed in accounting principles under header "Leases" and in notes "Leases".

New or amended standards and interpretations, with the exception of IFRS 16, have no significant impact on the consolidated financial statements or they have an effect on the disclosure requirements in the notes.





Notes to the Consolidated Financial Statements

1. OPERATING SEGMENTS

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

Profit or loss	2019	2018
Net sales	667,701	721,479
of which in Finland	665,740	713,118
of which in Sweden	1,961	8,361
Other operating income	1,500	2,988
Other operating expenses	-702,834	-683,794
Depreciation and amortisation	-8,203	-3,492
Operating result	-41,836	37,181
Interest income	262	171
Interest costs	-3,973	-1,184
Shares of associated company results		44
Segment's profit/loss before income taxes	-45,547	36,213
Assets		
Segment's assets	451,762	468,292
Investments in associated companies		859
Investments	3,971	15,902
Liabilities		
Segment's liabilities	339,636	305,935

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 85.9 million in 2019 (EUR 81.6 million in 2018), corresponding to approx. 13% (11%) of the segment's net sales.

In 2019, the share of net sales of the largest individual customer was 8% (6% in 2018).

2. NET SALES

	2019	2018
Revenue recognised over time	349,099	463,577
Revenue recognised upon delivery	317,979	257,416
Rental income	623	487
Total	667,701	721,479

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

Revenue recognised that was included in the contract liability balance (advances received) at the beginning of the year was EUR 53.2 (69.3) million.



3. OTHER OPERATING INCOME

	2019	2018
Rental income	82	75
Grants	23	97
Damages	332	133
Capital gains	862	460
Change in estimated additional purchase price liabilities from acquired business		1,939
Other income	202	284
Total	1,500	2,988

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

4. EMPLOYEE BENEFIT EXPENSES

	2019	2018
Salaries and wages	67,368	65,686
Share-based incentives, portion to be paid out in cash	182	879
Share-based incentives, to be paid out in shares	431	714
Pension costs— defined contribution plans	11,772	12,239
Other personnel costs	2,461	3,339
Total	82,214	82,856

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

Number of personnel in average during the year, Group

	2019	2018
Salaried employees	742	720
Workers	712	737
Total	1,454	1,457

Number of personnel at the end of the financial year,

Group	2019	2018
Salaried employees	674	772
Workers	600	780
Total	1,274	1,552

5. DEPRECIATION AND AMORTISATION

Depreciation and amortisation of property, plant and equipment

	2019	2018
Machinery and equipment		
Machinery and equipment	2,539	2,101
Machinery and equipment, right-of-use asset	206	
Properties		
Properties in own use	718	421
Business premises, right-of-use asset	1,705	
Inventories, right-of-use asset	1,769	
Other tangible assets	111	9
Total	7,050	2,531

Depreciation and amortisation of intangible assets

	2019	2018
Customer relationships	300	481
Other intangible assets	845	460
Total	1,145	941

Depreciation of investment properties

	2019	2018
Buildings and structures	7	20
Total	7	20

Depreciation and amortisation, total

	2019	2018
Depreciation and amortisation, total	8,203	3,492



6. OTHER OPERATING EXPENSES

	2019	2018
Voluntary personnel expenses	2,871	3,223
Business premises expenses	1,219	2,552
Equipment expenses	3,281	3,761
Travel expenses	3,722	3,428
Product development expenses	401	117
Office expenses	914	1,299
Marketing expenses	4,198	2,399
Administrative services	2,225	1,701
Reduction from expected credit loss	51	12
Other operating expenses	5,455	6,303
Total	24,337	24,794

	2019	2018
Fees paid to auditor:		
Audit fees	244	280
Certificates and statements	46	18
Other services	118	75
Total	408	373

7. FINANCIAL INCOME AND EXPENSES

	2019	2018
Financial income		
Dividend income	0	0
Other financial income	262	171
Total	262	171

	2019	2018
Financial expenses		
Interest costs	3,740	1,469
Interest costs from lease liabilities	1,873	
Capitalised interest costs	-2,973	-915
Other financial expenses	1,334	630
Total	3,973	1,184
Financial income and expenses, total	-3,711	-1,012

8. INCOME TAXES

	2019	2018
Current income tax	712	8,416
Change deferred tax assets	-10,347	-1,199
Change deferred tax liabilities	-163	287
Total	-9,797	7,504

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

	2019	2018
Tax rate	20.0%	20.0%
Profit before taxes	-45,547	36,213
Taxes calculated at the tax rate of the domicile country	-9,109	7,243
Tax-exempt income	-945	-136
Non-deductible expenses	130	397
Taxes for the previous financial years	523	0
Effect of foreign subsidiaries' different tax rates	-395	
Other items	0	1
Total	-9,797	7,504



9. SHARE-BASED KEY FIGURES

	2019	2018
Profit for the financial year attributable to equity holders of the parent company	-35,750	28,708
Issue-adjusted average number of shares during the year, basic	58,296,740	58,250,752
Earnings per share, basic, EUR/share	-0.61	0.49
Issue-adjusted average number of shares during the year, diluted	58,424,817	58,380,598
Earnings per share, diluted, EUR/share	-0.61	0.49
Issue-adjusted average number of shares at the end of year	58,309,443	58,250,752
Equity / share	1.92	2.78
Dividend / share	— *)	0.24

*) Dividend proposal

10. GOODWILL

	2019	2018
Goodwill	4,624	4,624

Impairment tests

For the purposes of goodwill impairment testing, recoverable cash flows have been determined based on value-in-use calculations. A cash generating unit is the acquired business entity to which goodwill relates. The cash flows of cash generating units for the next five years have been discounted to their present value and the discount rate used is the weighted average cost of capital (WACC) determined for Lehto. Cash flows after five years – the residual value – have not been taken into consideration in the calculations, as they are impacted by actions taken after the goodwill was recognised and which change the performance of the cash generating unit. Cash flow forecasts are based on the budgets for 2020

approved by the company's management and the strategic forecasts for 2021-2024

The pre-tax weighted average cost of capital (WACC) has been remeasured based on the weighting of the indicators of an industrial comparison group with the average capital structure in the sector. This measurement takes into account indicators such as sector-specific beta value, country risk, market risk premium, interest on borrowing in the sector, risk-free interest rate, and the risk premium related to the company's size class. According to the calculation, the discount rate to be used in the 2019 financial statements is 8.06% (7.92% in 2018).

Goodwill impairment testing is performed as necessary, but at least once a year. The last time impairment testing was performed was on 31 December 2018. The actual cash flows for 2019 were significantly lower than this estimate due to unsuccessful projects. No material changes with an impact on expected cash flow from operations occurred in the business environment compared with the previous financial year. Impairment testing on 31 December 2019 did not indicate a need to recognise impairment.

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



11. OTHER INTANGIBLE ASSETS

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

Intangible assets 2018	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2018	4,282	2,027	6,309
Increases		1,052	1,052
Acquisition cost at 31 Dec. 2018	4,282	3,079	7,361
Accumulated depreciation and amortisation at 1 Jan. 2018	-2,976	-1,202	-4,178
Depreciation	-481	-460	-941
Accumulated depreciation and amortisation at 31 Dec. 2018	-3,457	-1,662	-5,119
Carrying amount at 1 Jan. 2018	1,306	826	2,132
Carrying amount at 31 Dec. 2018	825	1,417	2,242

12. PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment 2018	Properties in own use	Machinery and equipment and other tangible assets	Total
Acquisition cost at 1 Jan. 2018	5,993	8,305	14,298
Increases	8,064	6,787	14,851
Acquisition cost at 31 Dec. 2018	14,057	15,091	29,148
Accumulated depreciation and amortisation at 1 Jan. 2018	-727	-2,950	-3,677
Amortisation		-272	-272
Depreciation	-421	-1,838	-2,260
Accumulated depreciation and amortisation at 31 Dec. 2018	-1,149	-5,060	-6,209
Carrying amount at 1 Jan. 2018	5,266	5,355	10,621
Carrying amount at 31 Dec. 2018	12,908	10,032	22,940



13. INVESTMENT PROPERTIES

Investment properties 2019	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2019	202	809	1 011
Acquisition cost at 31 Dec. 2019	202	809	1,011
Accumulated depreciation and amortisation at 1 Jan. 2019		-274	-274
Depreciation		-7	-7
Accumulated depreciation and amortisation at 31 Dec. 2019		-282	-282
Carrying amount at 1 Jan. 2019	202	535	737
Carrying amount at 31 Dec. 2019	202	527	730

Investment properties 2018	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2018	202	809	1,011
Acquisition cost at 31 Dec. 2018	202	809	1,011
Accumulated depreciation and amortisation at 1 Jan. 2018		-255	-255
Depreciation		-20	-20
Accumulated depreciation and amortisation at 31 Dec. 2018		-274	-274
Carrying amount at 1 Jan. 2018	202	554	757
Carrying amount at 31 Dec. 2018	202	535	737
Net rental income		2019	2018
Rental income from investment properties		43	85
Direct maintenance costs for investment properties		29	30
		14	55

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 2019	Fair value 2018
Business property	Acquisition cost	3	606	612
Land area	Acquisition cost	3	202	202
			808	814

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

14. INVESTMENTS IN ASSOCIATED COMPANIES

	2019	2018
Investments in associated companies at 1 Jan.	859	820
Decreases	-859	-5
Share of profit or loss for the financial year		44
Investments in associated companies at 31 Dec.	859	

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



15. OTHER FINANCIAL ASSETS

Financial assets recognised through profit and loss	2019	2018
Financial assets recognised through profit and loss at 1 Jan.	214	199
Increases	757	14
Decreases	-195	
Financial assets recognised through profit and loss 31 Dec.	775	214

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

	2019	2018
Other receivables	1,915	24
Total	1,915	24

17. DEFERRED TAX ASSETS AND LIABILITIES

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

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

Deferred tax assets 2018	1 Jan 2018	Recognised in income statement	31 Dec 2018
Fixed assets internal margin	28	20	47
Tax losses carried forward	337	-253	84
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	4,534	1,430	5,965
Other temporary differences		2	2
Exchange rate difference in opening balance	-1		-5
Total	4,898	1,199	6,093

Deferred tax liabilities 2018	1 Jan 2018	Recognised in income statement	31 Dec 2018
Temporary differences from capitalisation of financial expenses	17	68	85
Depreciation difference with taxation	158	236	394
Other temporary differences	252	-16	236
Total	427	287	715



18. INVENTORIES

	2019	2018
Materials and supplies	3,986	5,536
Work in progress	161,441	213,302
Right-of-use asset	39,803	
Completed products	44,340	18,033
Inventory shares	123	579
Other inventories	749	764
Total	250,441	238,213

19. TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	50,484	62,186
Loan receivables	1,430	903
Current tax assets	0	2,383
Other receivables	3,862	1,288
Receivables from customers for constructing contracts	29,608	71,145
Adjusting entries for assets	923	1,062
Total	86,307	138,967

Ageing analysis of trade receivables

	2019	2018
Not yet due	36,269	54,245
Reduction from expected credit loss	-62	-12
Due for		
less than 30 days	10,840	5,719
30–60 days	634	406
61–90 days	1,265	232
more than 90 days	1,538	1,595
Total	50,484	62,186

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
Financial assets at fair value through profit or loss	313	311
Total	313	311

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

21. CASH AND CASH EQUIVALENTS

	2019	2018
Cash in hand and at banks	58,911	53,070
Total	58,911	53,070

22. EQUITY

	Number of shares	Share capital	Invested non-restricted equity reserve	Total
31 December 2015	22,655,202	100	5,830	5,930
Share split 30 March 2016	22,655,202			
Directed share issue on 28 April 2016	11,874,705		63,325	63,325
Conversion of equity loan 28 April 2016	1,065,643			
31 December 2016	58,250,752	100	69,155	69,255
31 December 2017	58,250,752	100	69,155	69,255
31 December 2018	58,250,752	100	69,155	69,255
Directed share issue on 19 March 2019	58,691			
31 December 2019	58,309,443	100	69,155	69,255

SHARES AND SHARE CAPITAL

Annual General Meeting on 29 March 2019

The Annual General Meeting on March 29, 2019 authorised the Board to decide on the purchase of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company, so that the maximum quantity purchased be 5,800,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki in accordance with its rules or using another method. The consideration paid for the purchased shares shall be based on the market price. The authorisation entitles the Board of Directors to decide on the purchase of shares also otherwise than in proportion to the shares owned by the shareholders (directed purchase). Then, there shall be weighty financial reasons for the company to purchase its own shares. Shares may be purchased to implement arrangements linked to the company's business operations, to implement the company's share-based incentive programmes or otherwise to be transferred on or the shares may be cancelled. The purchased shares may also be held by the company. The Board of Directors is authorised to make decisions on all other terms and matters pertaining to the purchase of own shares. The purchase of own shares reduces the unrestricted equity of the company. The term of the authorisation extends until the Annual General Meeting 2020.

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or without consideration. Contrary to the shareholders' pre-emptive rights, new shares may be issued directly and

own shares held by the company transferred directly if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the company's point of view and considering the benefit of all its shareholders. The Board of Directors is authorised to decide on all other terms and matters pertaining to a share issue, to the granting of special rights entitling to shares, and to the disposal of shares. Among other things, the authorisation may be used to develop the capital structure, to expand the ownership base, as consideration in M&A transactions, when acquiring assets linked to the operations of the company, and to implement incentive programmes. The term of the authorisation extends until 31 October 2021. The authorisation shall replace the company's previous share issue and option right authorisations.

At balance sheet date, the number of shares totalled 58,309,443. The share capital is EUR 100,000. The company has one series of shares and all shares are of the same class. Each share entitles its holder to one vote in the General Meeting of Shareholders and to an equal amount of dividend.

Invested non-restricted equity reserve

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

Share-based compensations

On 20 December 2016, The Board of Directors of Lehto Group Plc has resolved to launch two new share-based incentive plans for the Group key employees. The aim of the plans is to combine the objectives of

the shareholders and the key employees in order to increase the value of the Company in the long-term, to commit the key employees to the Company, and to offer them competitive reward plans based on earning the Company's shares.

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

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2017-2019 correspond to the value of an approximate maximum total of 1,200,000 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 2019 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2016 of the long-term incentive plan adopted by Lehto in 2016. In the share issue 58,691 Lehto Group Plc's new shares were issued free of consideration to 25 group key employees in accordance with the terms and conditions of the plan.



The Issue Shares corresponded to approximately 0.1 per cent of Lehto's shares and votes prior to the share issue. The Issue Shares were registered with the trade register on March 19, 2019 and were entered into the key employees' book-entry accounts, and were admitted to trading on the official list of Nasdaq Helsinki Ltd on March 21, 2019. For the earning period 2017, the performance bonus for members of the share plan was EUR 880,000, which was converted into 75,203 shares. For the earning period 2018 the performance bonus for members of the share plan was EUR 326,000, converted to shares 74,149.

Arrangement	Earning period		
	2017	2018	2019
Nature of arrangement	Shares	Shares	Shares
Date of issue	11 April 2017	14 Feb 2018	12 Feb 2019
Number of instruments issued	53,439	74,149	21,991 (estimate)
Share price on grant date	12.46	12.40	4.32
Period of validity	3 years	3 years	3 years
Expected performance, %	100%	100%	100%
Terms and conditions of conferral of right	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms
Carried out	As shares	As shares	As shares

For the 2017, 2018 and 2019 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2019 will be adjusted according to the terms and conditions once the conversion rate (subscription price) has been established. The number of shares issued on the balance sheet date is based on an estimate.

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

Furthermore, the Board of Directors decided to continue the Group's restricted share plan. The reward from the restricted share plan is based on a key employee's valid and

continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash. No key personnel were covered by the restricted share plan in 2019.

23. PROVISIONS

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

Provisions 2018	Guarantee provisions	Onerous projects	Total
Provisions at 1 Jan. 2018	4,098		4,098
Increases	6,678	2,616	9,294
Decreases	-3,017		-3,017
Provisions at 31 Dec. 2018	7,759	2,616	10,375

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



24. FINANCIAL LIABILITIES

	2019	2018
Non-current loans from financial institutions	5,556	19,425
Non-current instalment debts	373	676
Non-current lease liabilities	44,658	
Total	50,586	20,101
	2019	2018
Current loans from financial institutions	103,289	46,585
Current instalment debts	303	298
Debts on shares in unsold housing and real estate company shares in progress	17,085	44,885
Debts on shares in unsold housing and real estate company shares completed	15,754	4,033
Current lease liabilities	2,147	
Total	138,579	95,802
Financial liabilities, total	189,165	115,903

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

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

	1 Jan 2018	Cash flows	31 Dec 2018
Non-current financial liabilities	11,109	8,992	20,101
Current financial liabilities	25,840	69,963	95,802
Total	36,948	78,955	115,903

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

Non-current non-interest-bearing liabilities	2019	2018
Estimated purchase prices from inventory shares	122	5,591
Total	122	5,591
Current non-interest-bearing liabilities	2019	2018
Advances received		
From projects where revenue recognised over time	14,930	20,179
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estates shares in progress	28,855	34,644
Debts on shares in sold housing and real estates shares in progress	28,801	33,411
Other advances received	635	18
Trade payables	29,755	40,343
Other liabilities		
Liabilities paid to the Tax Administration	14,481	21,328
Other liabilities	4,002	3,534
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	11,763	13,228
Income tax debt	83	1,738
Other adjusting entries for liabilities	7,109	4,926
Total	140,413	173,351



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 available. At the end of 2019, the cash and cash equivalents amounted to EUR 58.9 million (EUR 53.4 million 31 December 2018). The amount of credit limits available at the end of 2019 was EUR 75.0 million, out of which EUR 54.0 million was in use. In November 2018, Lehto signed a EUR 50 million financing agreement with OP Corporate Bank plc and Nordea Bank plc. This financing agreement is a Revolving Credit Facility (RCF) that is valid for three years. The agreement employs the standard covenants for profitability and indebtedness. In March 2019, Swedbank AB was added to this credit facility with a EUR 25 million share, increasing the total sum to EUR 75 million. The covenant levels of the RCF financing agreement were renegotiated with financiers during the review period. As a result of the negotiations, the full amount of the RCF is limited to EUR 54 million and this full amount was in use on the closing date.

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.

Foreign exchange risk

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

The Group's functional currency is euro. At the balance sheet date the Group had liabilities denominated in foreign currency EUR 0,7 million (EUR 0,0 million in 31 December 2018) and receivables denominated in foreign currency totalling EUR 1.2 million at 31 December 2019 (EUR 1.1 million in 2018). Most of the foreign currency exposure came from Swedish Crown.

Interest rate risk

Due to the relatively small amount of interest-bearing non-current liabilities, interest rate risk of related balance sheet items is not very significant for the Group. Interest rate risk originates mainly from interest-bearing liabilities on the balance sheet, which mainly consist of floating rate bank loans. If necessary, the Group can convert the loans into fixed-rate loans of 2–10 years by rearranging its loan portfolio, with interest rate swaps or with other derivative instruments. The hedge ratio can vary between 0 and 100 per cent. The company monitors the interest rate risk of its loan portfolio and may change the interest rate duration as necessary.

Sensitivity analysis for loans with

floating rates

	2019	2018
Change, %	1%	-1%
Impact on profit/loss after taxes	-47	47
	-161	161

Credit risk

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

Liquidity risk

The liquidity risk is managed through maintaining an adequate infrastructure for planning and monitoring of funding and cash management. To secure immediate liquidity the Group has credit limits available. The amount of un-used credit limits at 31 December 2019 was EUR 21.0 million (EUR 58.8 million in 2018).



Analysis of debt maturity

	31 Dec 2019	less than 1 year	1–5 years	more than 5 years
2019				
Financial liabilities	142,360	136,431	5,928	
Lease liabilities	46,805	2,147	5,015	39,643
Trade payables and other non-interest-bearing liabilities	48,360	48,238	122	

	31 Dec 2018	less than 1 year	1–5 years	more than 5 years
2018				
Financial liabilities	115,903	95,802	20,101	
Trade payables and other non-interest-bearing liabilities	70,797	65,206		

Capital management

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

Net liabilities	2019	2018
Interest-bearing liabilities	189,165	115,903
Cash and cash equivalents and interest-bearing receivables	-59,224	-53,381
	129,941	62,522
Equity, total	112,126	162,357
Gearing	49.9%	21.3%
Net gearing ratio	115.9%	38.5%

27. JOINT ARRANGEMENTS

The Group have a 50% holding in two joint operations, Työyteenliittymä Kastelli-Optimikodit Kirkkonummen Aurinkopuisto and Työyteenliittymä Rakennuskartio/Kastellitalot Oy. The joint operations are consolidated in proportion to holding. The joint operations had no actual activities during the financial year.

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

	2019	2018
Current assets	4	20
Current liabilities	23	0
Revenue	7	
Expenses		1

28. LEASES

Group as lessee

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

Reconciliation of rent liabilities on Dec 31, 2018 and lease liabilities in balance sheet on Jan 1, 2019

	Inventories	Property, plant and equipment	Total
Rent liabilities Dec 31, 2018 (including VAT)	156,372	8,486	164,858
Effect of VAT		-1,234	-1,234
Effect of the short-term and low value contracts		-439	-439
Effect of the rental period		1,504	1,504
Effect of the discounting	-54,710	-359	-55,069
Lease liabilities Jan 1, 2019	101,662	7,957	109,619



At the date of transition, the average incremental borrowing rate of lessees was 2.0%.

EUR 279 thousand was recognised as expenses from low-value leases during the financial year. The total cash flow from right-of-use leases amounted to EUR 2,848 thousand and from land leases to EUR 3,624 thousand.

29. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2019	2018
Loans from financial institutions	54,706	65,837
Debts on shares in unsold housing company shares	32,840	48,918
Instalment debts	554	845
Total	88,100	115,601

Guarantees	2019	2018
Corporate mortgages		1,800
Real-estate mortgages	9,380	4,930
Pledges	60,470	65,359
Absolute guarantees	327	347
Total	70,178	72,436

Contract guarantees	2019	2018
Production guarantees	41,190	49,904
Warranty guarantees	17,649	14,259
RS guarantees	34,999	36,838
Payment guarantees	4,085	10,479
Total	97,923	111,479

Liability to adjust value added tax (VAT) on property investments

	2019	2018
Liability to adjust VAT	2,616	3,164

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

30. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

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



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

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

31. RELATED PARTY TRANSACTIONS

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

Transactions with related parties

	Sales 2019	Sales 2018	Purchases 2019	Purchases 2018
Key personnel and their controlled entities	30,884	56,295	4,595	5,208
Total	30,884	56,295	4,595	5,208

	Receivables 31 Dec 2019	Receivables 31 Dec 2018	Liabilities 31 Dec 2019	Liabilities 31 Dec 2018
Key personnel and their controlled entities	4,475	7,773	19	104
Total	4,475	7,773	19	104

A major part of related party transactions are 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.

Management salaries and remuneration

	2019	2018
Chief Executive Officer, CEO		
Hannu Lehto	126	126
Other management	1,336	1,091
Total	1,463	1,218

	2019	2018
Members of the Board of Directors		
Martti Karppinen, chairman	96	58
Pertti Korhonen	50	26
Mikko Räsänen	49	33
Anne Korkiakoski (since March 29, 2019)	40	
Seppo Laine (since March 29, 2019)	41	
Sakari Ahdekivi (until March 29, 2019)	9	35
Päivi Timonen (until March 29, 2019)	9	35
Pertti Huuskonen (until April 11, 2018)	13	
Total	293	200



Income Statement for the parent company, FAS

	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Net sales	10,541	8,975
Other operating income	919	514
Personnel expenses		
Salaries and fees	-4,075	-3,206
Personnel expenses		
Pension costs	-716	-596
Indirect employee costs	-109	-129
Depreciation according to plan and impairment	-790	-517
Other operating expenses	-4,522	-4,834
Operating profit/loss	1,248	206
<i>Financial income and expenses</i>		
Income from holdings in Group companies	25	15,520
Interest and other financial income		
From Group companies	2,369	1,117
From others	22	113
Amortisation from other investments held as non-current assets		0
Interest and other financial expenses		
To Group companies	-10	-13
To others	-2,083	-431
<i>Financial income and expenses, total</i>	<i>322</i>	<i>16,305</i>
Profit/loss before appropriations and taxes	1,570	16,511
Appropriations		
Group contribution	-1,669	-800
Profit/loss before taxes	-99	15,711
Taxes	0	-36
Profit/loss for the financial year	-99	15,675



Balance Sheet for the parent company, FAS

ASSETS	31 Dec 2019	31 Dec 2018
Non-current assets		
Intangible assets	2,281	1,130
Machinery and equipment	402	660
Holdings in Group companies	80,840	27,326
Investments in associated companies		780
Other shares and investments	757	
Non-current assets, total	84,279	29,897
Current assets		
Inventories	83	83
<i>Non-current receivables</i>		
Receivables from Group companies	1,229	1,350
Receivables from associated companies		
Other receivables		
<i>Current receivables</i>		
Trade receivables		40
Receivables from Group companies	51,749	65,863
Other receivables	14	111
Adjusting entries for assets	259	25
Financial securities	313	311
Cash and cash equivalents	56,429	40,792
Current assets total	110,075	108,576
ASSETS TOTAL	194,354	138,473

EQUITY AND LIABILITIES	31 Dec 2019	31 Dec 2018
Equity		
Share capital	100	100
Invested non-restricted equity reserve	71,335	71,335
Retained earnings	-2,516	-4,196
Profit / loss for the financial year	-99	15,675
Equity, total	68,820	82,914
Liabilities		
<i>Non-current liabilities</i>		
Loans from financial institutions		50
Other liabilities		50
<i>Non-current liabilities, total</i>		100
<i>Current liabilities</i>		
Loans from financial institutions	54,050	20,200
Trade payables	533	335
Liabilities to Group companies	69,582	33,910
Other liabilities	290	272
Adjusting entries for liabilities	1,080	743
<i>Current liabilities, total</i>	125,535	55,460
Liabilities, total	125,535	55,559
EQUITY AND LIABILITIES TOTAL	194,354	138,473



Cash Flow Statement for the parent company, FAS

	31 Dec 2019	31 Dec 2018		31 Dec 2019	31 Dec 2018
Cash flow from operating activities			Cash flow from financing		
Profit for the financial year	1,570	16,511	Loans drawn	60,000	30,000
<i>Adjustments:</i>			Loans repaid	-26,200	-10,200
Depreciation according to plan and impairment	790	517	Change in Group financing	7,267	-40,611
Gain on sale of non-current assets	-878	-431	Group contribution	-800	3,150
Financial income and expenses	-322	-16,306	Dividends paid	-13,995	-19,797
<i>Changes in working capital:</i>			Share issue paid		
Change in trade and other receivables	-67	170	Net cash used in financing activities	26,272	-37,458
Change in trade and other payables	-720	853	Change in cash and cash equivalents (+/-)	15,638	-21,439
Interest paid and other financial expenses	-1,817	-460	Cash and cash equivalents at 1 Jan.	41,104	62,542
Interests received from operations	2,279	1,181	Cash and cash equivalents at 31 Dec.	56,742	41,104
Dividends received from operations		15,520			
Income taxes paid	-36	-2			
Net cash from operating activities	798	17,552			
Cash flow from investments					
Investments in intangible and tangible assets	-1,682	-1,655			
Investments in other investments	-1,037	-45			
Proceeds from sale of investments		166			
Repayment of loan receivables	600	1,175			
Loans granted	-10,970	-1,441			
Sales of associated companies	1,658	267			
Net cash from investments	-11,432	-1 533			



Notes to the Financial Statements for the parent company

Measurement and timing principles

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

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

Bases of depreciation

Machinery and equipment	3 - 5 years straight-line depreciation
Intangible rights	3 - 5 years straight-line depreciation
Other long-term expenditure	3 years straight-line depreciation
No changes in the bases of depreciation	

Notes to the income statement

Net sales by business area	2019	2018
Group internal service charges	10,319	8,850
Other net sales, internal	218	125
Other net sales, external	4	0
Total	10,541	8,975
Auditors' fees	2019	2018
Statutory auditing	61	124
Tax services	0	2
Other services	9	0
Total	71	127

Financial income and expenses	2019	2018
Dividend income from Group companies	25	15,520
Interest income from Group companies	2,369	1,117
Interest income from others	22	113
Amortisation from other investments held as non-current assets	0	0
Interest costs on intra-Group liabilities	-10	-13
Interest costs to others	-1,319	-136
Other financial expenses	-764	-295
Total	322	16,305

Taxes	2019	2018
Current taxes	0	-36
Total	0	-36

Notes on balance sheet assets

Intangible rights	2019	2018
Acquisition cost at 1 Jan.	698	574
Increases	558	124
Acquisition cost at 31 Dec.	1,256	698
Accumulated depreciation at 1 Jan.	-471	-341
Depreciation and amortisation	-260	-130
Accumulated depreciation at 31 Dec.	-731	-471
Book value at 1 Jan.	228	233
Book value at 31 Dec.	526	228



Other long-term expenditure	2019	2018
Acquisition cost at 1 Jan.	1,425	575
Increases	297	850
Acquisition cost at 31 Dec.	1,722	1,425
Accumulated depreciation at 1 Jan.	-523	-359
Depreciation and amortisation	-216	-164
Accumulated depreciation at 31 Dec.	-738	-523
Book value at 1 Jan.	903	216
Book value at 31 Dec.	984	903
Advanced payments for intangible assets	2019	2018
Acquisition cost at 1 Jan.	0	
Increases	771	
Acquisition cost at 31 Dec.	771	
Book value at 1 Jan.	0	
Book value at 31 Dec.	771	
Machinery and equipment	2019	2018
Acquisition cost at 1 Jan.	1,200	520
Increases	55	681
Acquisition cost at 31 Dec.	1,256	1,200
Accumulated depreciation at 1 Jan.	-541	-317
Depreciation and amortisation	-314	-224
Accumulated depreciation at 31 Dec.	-855	-541
Book value at 1 Jan.	659	202
Book value at 31 Dec.	400	659

Other tangible assets	2019	2018
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	2019	2018
Acquisition cost at 1 Jan.	28,201	30,142
Increases	54,270	
Decreases	-780	-1,940
Acquisition cost at 31 Dec.	81,692	28,201
Accumulated amortisation at 1 Jan.	-95	-95
Amortisation	0	0
Accumulated amortisation at 31 Dec.	-95	-95
Book value at 1 Jan.	28,106	30,047
Book value at 31 Dec.	81,596	28,106
Non-current receivables from Group companies	2019	2018
Loan receivables	1,229	1,350
Total	1,229	1,350



Current receivables from Group companies	2019	2018
Trade receivables	65	304
Loan receivables	724	2,169
Other receivables	722	475
Group limit	50,238	62,915
Total	51,749	65,863

Essential items included in adjusting entries for assets	2019	2018
Other adjusting entries for assets	259	25
Yhteensä	259	25

Notes on balance sheet liabilities

	2019	2018
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	100	100
Invested non-restricted equity reserve at 1 Jan.	71,335	71,335
Invested non-restricted equity reserve at 31 Dec.	71,335	71,335
Retained earnings at 1 Jan.	-4,196	3,405
Retained earnings	15,675	12,197
Distribution of dividends	-13,995	-19,797
Retained earnings at 31 Dec.	-2,516	-4,196
Profit/loss for the financial year	-99	15,675
Equity, total	68,820	82,914

Statement of distributable funds	2019	2018
Invested non-restricted equity reserve	71,335	71,335
Retained earnings	-2,516	-4,196
Profit/loss for the financial year	-99	15,675
Total	68,720	82,814

Liabilities to Group companies	2019	2018
Trade payables	87	1,070
Other payables	42,865	800
Group limit	26,630	32,040
Total	69,582	33,910

Essential items included in adjusting entries for liabilities	2019	2018
Holiday pay debt with related costs	500	423
Non-wage labour cost debt	227	208
Tax debt		36
Interest debt	352	75
Other liabilities		0
Total	1,080	743

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2019	2018
Loans from financial institutions	50	20,250
Total	50	20,250
Guarantees		
Absolute guarantees	238	238
Total	238	238



Amount of credit limits	2019	2018
Credit limits available	75,005	58,754
Credit limits in use	54,005	4
Credit limits outstanding	21,000	58,750
Guarantee limits available	196,175	215,020
Guarantee limits in use	98,272	111,732
Guarantee limits outstanding	97,903	103,288
Guarantees given on behalf of other Group companies	2019	2018
Guarantees given and other commitments	81,177	159,771
Leasing agreements not included in balance sheet		
Expiring in 12 months	56	55
Expiring in more than 12 months	90	87
Total	146	142
Lease liabilities		
Construction leases	4,446	5,538
Total	4,446	5,538

Notes on personnel and members of administrative personnel

Average number of company personnel at the end of the financial year	2019	2018
Salaried employees	82	66
Total	82	66

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

Board of Directors' proposal for the distribution of profits

The parent company's distributable funds on the balance sheet of 31 December 2019 are EUR 68,719,704.44, of which the operating result is EUR -99,211.31.

The Board of Directors will propose to the Annual General Meeting to be held on 14 April 2020 that no dividends be paid for the 1 January–31 December 2019 financial year.

Signatures to the Annual Report and Financial Statements

Vantaa, 19 February 2020

Matti Karppinen

Chairman of the Board of Directors

Pertti Korhonen

Member of the Board of Directors

Seppo Laine

Member of the Board of Directors

Mikko Räsänen

Member of the Board of Directors

Anne Korkiakoski

Member of the Board of Directors

Hannu Lehto

CEO

The Auditor's Note

A report on the audit performed has been issued today.

Oulu, 19 February 2020

KPMG Oy Ab

Audit firm

Tapio Raappana

APA



Group Key Figures

	2019	2018	2017 ³⁾	2016	2015 ¹⁾
Net sales, EUR million	667.7	721.5	597.6	361.8	275.6
Net sales, change from the previous year %	-7.5%	20.7%	65.2%	31.3%	61.1%
Operating result, EUR million	41.8	37.2	64.6	40.4	27.2
Operating result, as % of net sales	-6.3%	5.2%	10.8%	11.2%	9.9%
Profit or loss for the financial year, EUR million	35.7	28.7	51.6	31.9	21.2
Profit or loss for the financial year, as % of net sales	-5.4 %	4.0%	8.6%	8.8%	7.7%
Return on investments (ROE), %	-26.0%	18.3%	38.8%	42.8%	85.1%
Return on equity (ROI), %	-14.3%	16.1%	40.6%	44.5%	66.5%
Equity ratio, %	29.6%	42.7%	56.2%	60.4%	37.2%
Gearing, %	49.9%	21.3%	11.7%	9.4%	32.6%
Net gearing ratio, %	115.9%	38.5%	-20.6%	-44.2%	-22.9%
Gross expenditure on assets, EUR million	7.7	15.9	4.5	7.6	1.1
Personnel during the period, average	1,454	1,457	1,013	566	402
Personnel at Dec 31	1,274	1,552	1,184	747	423
Equity / share	1.92	2.78	2.58	1.98	0.74
Earnings per share, EUR, basic	-0.61	0.49	0.89	0.59	0.52
Earnings per share, EUR, diluted	-0.61	0.49	0.88	0.59	0.52
Average number of shares during the year, basic	58,296,740	58,250,752	58,250,752	54,067,297	41,062,559
Average number of shares during the year, diluted	58,424,817	58,380,598	58,432,315	54,073,804	41,062,559
Number of shares at the end of the year	58,309,443	58,250,752	58,250,752	58,250,752	45,310,404
Market value of share at Dec 31, EUR million	137.0	247.6	737.5	593.6	-
Share turnover, shares	45,281,956	42,861,908	16,334,696	11,912,330	-
Share turnover out of average number of shares, %	77.7%	73.6%	28.0%	22.0%	-
Share prices, EUR					
Highest price, EUR	5.33	14.18	14.26	10.19	-
Lowest price, EUR	1.48	4.02	9.79	5.52	-
Average price, EUR	2.66	9.13	12.25	8.03	-
Price at Dec 31, EUR	2.35	4.25	12.66	10.19	-
Dividend / share, EUR ²⁾	-	0.24	0.34	0.22	0.18
Dividend payout ratio, % ²⁾	-	48.7%	38.4%	37.3%	33.8%
Effective dividend yield % ²⁾	-	5.6%	2.7%	2.2%	-
Price / Earnings	-3.84	8.64	14.33	17.27	-

¹⁾ Year 2015 adjusted for share issue (split) in March 30, 2016 ²⁾ Year 2019 dividend proposal ³⁾ Restated according IFRS 15

Definitions of key figures

Earnings per share

Profit for the financial year

Equity / share

Equity

Dividend / share

Issue-adjusted average number of shares

during the year

Dividend

Issue-adjusted number of shares

on Dec 31

Gearing, %

$$100 \times \frac{\text{Non-current liabilities}}{\text{Equity} + \text{Provisions}}$$

Net gearing ratio, %

$$100 \times \frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity}}$$

Dividend payout ratio, %

$$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

Effective dividend yield, %

$$100 \times \frac{\text{Dividend per share}}{\text{Share price on Dec 31}}$$

Price / Earnings (P/E)

$$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings per share}}$$

Alternative performance measures by ESMA

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

Return on equity (ROE), %

$$100 \times \frac{\text{Profit for the financial year}}{\text{Equity (average)}}$$

Return on investments (ROI), %

$$100 \times \frac{\text{Profit before taxes} + \text{Interest and other financial expenses}}{\text{Balance sheet total} - \text{Non-interest bearing liabilities (average)}}$$

Equity ratio, %

$$100 \times \frac{\text{Equity}}{\text{Balance sheet total} - \text{Advances received}}$$



Shares and Shareholders

At balance sheet date, the number of shares is 58,309,443. The share capital is EUR 100,000. The company has one share class and all shares are of the same class. The company's shares have no par value, and the Articles of Association do not specify the minimum or maximum value of shares or share capital. Each share entitles its holder to one vote and to an equal amount of dividend. The company held no own shares.

SHAREHOLDERS 31 DECEMBER 2019

	Number of shares	%
Lehto Invest Oy	21,748,221	37.3 %
Kinnunen Mikko	1,446,454	2.5 %
Danske Invest Finnish Equity Fund	915,718	1.6 %
Saartoala Ari	865,329	1.5 %
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	800,000	1.4 %
Sr eQ Pohjoismaat Pienyhtiö	761,336	1.3 %
Heikkilä Jaakko	640,000	1.1 %
OP-Henkivakuutus Oy	476,231	0.8 %
Keskinäinen Työeläkevakuutusyhtiö Elo	474,206	0.8 %
Paloranta Veli-Pekka	324,851	0.6 %
10 LARGEST SHAREHOLDERS	28,452,346	48.8 %
Nominee-registered	6,515,921	11.2 %
Other shareholders	23,341,176	40.0 %
TOTAL	58,309,443	100.0 %

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of shareholders	%
1 – 100 shares	284,132	0.5 %	5,328	28.6 %
101 – 1,000 shares	4,133,862	7.1 %	9,856	53.0 %
1,001 – 10,000 shares	9,081,839	15.6 %	3,112	16.7 %
10,001 – 100,000 shares	7,058,243	12.1 %	275	1.5 %
100,001 – 1,000,000 shares	8,817,295	15.1 %	27	0.2 %
over 1,000,000 shares	28,934,072	49.6 %	3	0.0 %
TOTAL	58,309,443	100.0 %	18,601	100.0 %
where of Nominee-registered	6,515,921	11.2 %	10	5.0 %

SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of shareholders	%
Companies	26,856,144	46.1 %	785	4.2 %
Financial and insurance institutions	8,306,118	14.2 %	27	0.2 %
Public sector organizations	1,492,013	2.6 %	4	0.0 %
Households	21,303,825	36.5 %	17,700	95.2 %
Non-profit organizations	186,485	0.3 %	42	0.2 %
Foreign countries	164,858	0.3 %	33	0.2 %
TOTAL	58,309,443	100.0 %	18,591	100.0 %
where of Nominee-registered	6,515,921	11.2 %	10	0.1 %

2019



LEHTO GROUP PLC
Auditor's Report



Auditor's Report

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lehto Group Plc (business identity code 2235443-2) for the year ended 31 December 2019. 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.

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

Basis for Opinion

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

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

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

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

Key Audit Matters

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

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

Net sales: revenue recognition

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

Key audit matters

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

Audit approach to the matters

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

Valuation of inventories

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

Key audit matters

- The inventory balance comprises 55% of the total assets in the consolidated balance sheet.

- A significant proportion of the inventory balance is related to the capitalised cost of unfinished projects, which is based on the project-specific information produced by the enterprise resource planning system

Audit approach to the matters

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

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

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

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and the group's ability to continue

as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the

disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report

because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting for the financial year ended 31 December 2013 and our appointment represents a total period of uninterrupted engagement of 7 years. Lehto Group Plc became a public interest entity on 28 April 2016. We have been acting as the auditors of the company for the entirety of the duration that it has been a public interest entity.

Other Information

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the

financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

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

Oulu, 19 February 2020

KPMG Oy Ab

Tapio Raappana

Authorised Public Accountant, KHT

