Annual Report 2023

Lehto Group Plc

ANNUAL REPORT 2023

Report by the Board of Directors 2023

Group	1-12/ 2023	1-12/ 2022
Net sales from continuing operations, EUR million	171.8	344.8
Change in net sales from continuing operations, %	-50.2%	-14.7%
Operating result from continuing operations, EUR million	-72.8	-42.2
Operating result from continuing operations, % of net sales	-42.4%	-12.2%
Result from continuing operations, EUR million	-79.0	-58.8
Result from discontinued operations, EUR million	-0.1	32.1
Result for the period, EUR million	-79.0	-26.7
Order backlog at period end, EUR million	0.0	205.9
Earnings per share, EUR	-0.91	-0.31
Cash and cash equivalents, EUR million	6.1	13.2
Financial liabilities, EUR million	20.6	33.9
Lease liabilities, EUR million	59.1	77.8
Equity ratio, %	-12.1%	27.0%
Equity ratio, excl. IFRS 16 lease liabilities, %	-27.7%	38.7%

- Lehto Group Plc's ("Lehto" or "the Company") financial statements for the financial period that ended on 31 December 2023 are not based on continuity of operations. On 8 February 2024, after the end of the financial period, Lehto's subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy went into bankruptcy, and the Group's parent company Lehto Group Plc started corporate restructuring proceedings on 16 February 2024. Due to these factors, there are significant grounds for doubting that the Company will be able to continue to operate and make payments over the next 12 months.
- The financial statements includes the income statement and balance sheet items of the bankrupt subsidiaries.
    - Income statement items are presented as continuing operations.
    - Assets are valued at a maximum of the total liabilities of the respective companies, also taking into account the effects of impairment due to the loss of receivables realized in bankruptcy. For the avoidance of doubt, it is stated that on the date when the financial statements were signed, the assets and liabilities of the said subsidiaries are under the control of the bankruptcy estates.
- The valuation of assets remaining in the group is based on an estimate of the amounts of money that can be collected in situations where they fall below the accounting value formed on the basis of the continuity principle.
- On the date when the financial statements were signed, the Lehto Group consists of the parent company Lehto Group Plc, its wholly owned subsidiary Lehto Components Oy, and small project and other companies that do not engage in active operations.

The following table discloses the impact of the bankrupt subsidiaries on the consolidated balance sheet.

Effect of subsidiaries declared to bankrupt on the Group financial position Dec 31, 2023	**Group**	**The impact of bankrupt companies**	**Group without bankrupt companies**
Intangible and tangible assets	7.7	0.0	7.7
Investments in associated companies	0.8	0.0	0.8
Other financial assets	1.0	0.0	1.0
Receivables	2.5	2.4	0.1
Inventories	73.6	71.9	1.7
Trade and other receivables	12.1	11.1	1.0
Cash and cash equivalents	6.1	0.0	6.1
Assets, total	**103.7**	**85.3**	**18.4**
Non-current provisions	7.7	7.7	0.0
Non-current lease liabilities	53.6	52.9	0.7
Other non-current liabilities	0.1	0.1	0.0
Current provisions	2.9	2.6	0.4
Current financial liabilities	20.6	5.1	15.5
Current lease liabilities	5.5	5.0	0.5
Liabilities to customers for constructing contracts (advances received)	1,7	1.7	1.5
Trade and other payables	23.9	19.6	4.3
Liabilities, total	**116.1**	**94.6**	**21.5**
Net assets and liabilities	***-12.4***	***-9.3***	***-3.1***
Impact of group eliminations		**9.3**	**-9.3**
Groups' net assets and liabilities at the end of financial year			**-12.4**

- The Group currently does not engage in significant business, and as part of the parent company's corporate restructuring proceedings, the Company reviews options to expand to new business areas and acquire new business.

- The Group's cash and cash equivalents date when the financial statements were signed amount to approximately EUR 1.8 million. The future development of the company's cash assets will be influenced particularly by asset sales income, cash income and expenses related to new business and the schedule for the start-up of operations, financing acquired for new business and effects of the decisions made in the corporate restructuring proceedings of the parent company.

- The Company's restructuring programme is under preparation and its contents, which will be specified later, may affect the valuation of the Company's assets and liabilities. It is possible that as a result of the restructuring activities, the book values of the company's assets and liabilities might still change.

- The covenant terms of the company's key RCF financing agreement were not met on the closing date. The responsibilities and obligations related to this financing agreement are taken into account in the Company's restructuring programme.

- The Company has issued convertible bonds of EUR 15.0 million, which are convertible into new and/or existing shares in Lehto. The Company has not been able to comply with all of the terms and conditions of the convertible bonds. Any changes to the convertible bonds will be dealt with as part of the Company's restructuring proceedings.

Business development in 2023

2023 began in a difficult situation. The Company posted a loss for its operations in the previous year, the order book had contracted, and cash reserves were scant. At the same time, the construction market and short-term market outlook were at an all-time low. The Company's operational focus was naturally on securing cash flow and the preconditions for continuing its operations.

In January 2023, Lehto started a process to seek industrial or ownership partners for the Company. At that time, the Company estimated that its business portfolio was too broad in view of the market situation and the Company's financial position; the potential arrangements were intended to ensure financing for the Company's strategy and projects.

During the year, the Company engaged in negotiations with dozens of parties on the sale of business functions or parts thereof, or other corporate arrangements. In parallel with the corporate arrangement processes, Lehto implemented several measures to improve cash flow during the year. Among other things, the second factory building in Oulainen was sold, personnel cuts were made in all units, and both plots and residential units were sold.

The Company obtained cash flow from sales of fixed assets, housing and plots to continue operations and repay debts. Cash flow and belief in the future were also maintained by new orders received during the year and an extensive portfolio of housing projects in growth centres.

In October, the Company signed a letter of intent to sell its operative subsidiaries to a European fund management company. This solution was expected to enable the parent company to continue operating and possibly start up new business operations. In December, the letter of intent was terminated and as the year ended the Company was in a more difficult situation than when the year began.

In February 2024, after the end of the financial year, three Lehto subsidiaries — Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy — filed for bankruptcy because these companies no longer had sufficient financing to continue their operations. A week later, Lehto Group Plc, the parent company, initiated corporate restructuring.

Due to the subsidiaries' bankruptcies, the parent company's equity became negative. The Board has started taking steps to increase its equity capital and will convene a General Meeting to review this matter no later than by the end of May 2024.

In March 2024, Lehto sold the share capital of its subsidiary Insinööritoimisto Mäkeläinen Oy, which produces structural engineering services, after which the Group continues to operate in two operative companies: the parent company Lehto Group Plc and Lehto Components Oy.

On date when the financial statements were signed, Lehto is still evaluating and planning alternatives for continuing, selling or reorganising the operations of the parent company and Lehto Components Oy. Lehto also reviews options to expand to new business areas and acquire new business.

Development of the business environment 2023

According to the interim forecast presented by the Bank of Finland in March 2024, Finland's gross domestic product contracted by -1.0% in 2023. The gross domestic product has contracted almost continuously since mid-2022. In December 2023, the Bank of Finland estimated that the economic growth is weak on a broad front, and higher interest rates have been encouraging households to save rather than consume. In addition, higher prices and interest rates and uncertainty about the future have slowed down growth in household consumption. The recovery of the economy is also limited by a substantial contraction in investments. With regard to investments, activity in housing construction is especially low, and the unemployment rate is seeing a temporary rise due to the weak business cycle.

The Business Cycle Review of the Confederation of Finnish Construction Industries RT published in March 2024, states that new construction remained at a historically low level throughout last year. The decline in the volume of new production accelerated to 15 percent, weighed down by housing construction. The drop in value added in construction accelerated beyond the financial crisis figures, to 11 percent. According to RT, house construction starts have decreased continuously since the beginning of 2022. Housing starts fell to around 17,500 apartments in 2023, which is almost 20,000 less than the previous year. Starts of self-financed apartment buildings decreased by as much as 80 percent, while ARA production rose to 8,600 apartments.

In a review published in February 2024, the Ministry of Finance's construction trends group (RAKSU) estimated that the number of building permits shrunk to about half year-on-year. In 2023, construction was supported by subsidised housing production; the share of total construction start-ups accounted for by production subsidised by the Housing Finance and Development Centre of Finland (ARA) was indeed exceptionally high. Interest rate hikes caused a rise in living costs and almost paralysed the housing market for new homes. The decrease in the prices of homes caused by this slump in demand and the halt in housing sales soon became evident in the lengthening of the time required to sell newly completed residential units.

Balance sheet and financial position

The consolidated balance sheet includes the assets and liabilities of Lehto Group Plc's subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy which went bankrupt after the end of the financial period.

Consolidated balance sheet, EUR million	**31 Dec 2023**	**31 Dec 2022**
Non-current assets	11.9	27.7
Current assets		
Inventories, excluding IFRS 16 assets	17.4	101.2
Inventories, IFRS 16 assets	56.2	70.9
Current receivables	12.1	50.4
Cash and cash equivalents	6.1	13.2
Non-current assets held for sale	0.0	3.8
Total assets	**103.7**	**267.2**
Equity	-12.4	66.6
Financial liabilities	20.6	33.9
Lease liabilities	59.1	77.8
Liabilities based on customer contracts (advances received)	1.7	20.6
Other payables	34.7	68.4
Total equity and liabilities	**103.7**	**267.2**

The balance sheet total fell to EUR 103.7 (267.2) million, as asset values, including asset write-downs, decreased. Valuation of assets is based on an estimate of the amount of money that can be collected. The assets of group companies that have gone bankrupt after the end of the financial year have been valued at a maximum of the total liabilities of the respective companies. Liabilities decreased by EUR 84.6 million to EUR 116.1 (200.7) million. Liabilities were down due to changes in financial liabilities (EUR -13.2 million, net), a decrease in lease obligations as a result of the relinquishing of leased plots (EUR -18.7 million), and a decline in prepayments and other liabilities (EUR -52.6 million).

As liabilities exceeded assets, equity decreased to negative EUR 12.4 million. EUR 2.9 million of the Company's EUR 15.0 million convertible bond has been recognised in equity and EUR 12.1 million in liabilities. In accordance with the terms of the convertible bond, shares in the Company may be subscribed for with the bonds, which would reduce liabilities and improve equity.

Interest-bearing liabilities	31 Dec 2023	31 Dec 2022
Revolving credit facility (RCF)	3.4	13.0
Convertible bond	15.0	15.0
with adjusted expenses and equity component separated	-2.9	-3.3
RS loans related to unsold apartments in developer contracted housing projects	2.2	9.2
Investment loans	0.0	0.0
VAT payment arrangement	2.9	0.0
Financial liabilities, total	**20.6**	**33.9**
IFRS 16 lease liabilities	59.1	77.8
Interest-bearing liabilities, total	**79.7**	**111.7**

IFRS 16 lease liabilities are based on the company's lease payment obligations. In line with IFRS 16, long-term leases are presented in the lessee's balance sheet as both an asset and liability item. The majority of Lehto's lease liabilities at the end of the financial period were related to leases of plots for developer-contracted housing projects under construction. These obligations have been removed from Lehto's consolidated balance sheet due to the bankruptcies of subsidiaries after the end of the financial period. The IFRS 16 liabilities taken off the balance sheet due to the bankruptcies total EUR 58 million.

	Excluding IFRS 16 lease liabilities			Including IFRS 16 lease liabilities		
Financial position, EUR million	**31 Dec 2023**	**31 Dec 2022**	**Change**	**31 Dec 2023**	**31 Dec 2022**	**Change**
Cash and liquid assets	6.1	13.2	-7.1	6.1	13.2	-7.1
Interest-bearing liabilities	20.6	33.9	-13.2	79.7	111.7	-32.0
Interest-bearing net debt	14.5	20.6	-6.1	73.6	98.5	-24.9

The Group's cash flow statement includes the cash flow statement items of Lehto Group Plc's subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, which went bankrupt after the end of the financial period.

Cash flow statement, EUR million	1-12/ 2023	1-12/ 2022
Cash flow from operating activities		
Profit for the period + adjustments to accrual-based items	-71.3	-49.2
Change in net working capital	68.3	15.5
Total cash flow from operating activities	-2.9	-33.7
Cash flow from investments	4.0	27.8
Cash flow from financing	-8.2	-13.6
Change in cash and cash equivalents	**-7.1**	**-19.5**
Cash and cash equivalents at the beginning of the period	13.2	32.8
Cash and cash equivalents at the end of the period	6.0	13.2

Net cash flow from operating activities was EUR -2.9 (-33.7) million, which includes a positive impact of EUR 68.3 (15.5) million due to the decrease in net working capital. The decline in net working capital was caused by the recognition of inventories at net realisable value as well as a decrease in sales receivables and other receivables.

Net cash flow from investments was EUR 4.0 (28.7) million, mainly resulting from the divestment of the Oulainen factory property.

Net cash flow from financing was EUR -8.2 (-13.6) million. Financial liabilities decreased by a net amount of EUR -6.7 million and payments for lease liabilities were EUR -1.4 million.

Key financing agreements

Revolving credit facility (RCF)
Lehto has a Revolving Credit Facility (RCF) agreement with OP Corporate Bank plc and Nordea Bank Plc, which was signed on 30 June 2022. The RCF amounts to EUR 13 million and is valid until 31 March 2024. At the end of the review period, EUR 3.4 million of the RCF was in use. Some of the assets pledged as collateral for the RCF belong to the bankrupt subsidiaries, and some to the continuing Lehto Group.

At the end of the review period, not all of the covenant or other terms of the RCF were met and the contract is about to expire on 31 March 2024. Debt collection and repayment will occur as part of the Company's restructuring proceedings.

Convertible bond
In 2022 Lehto offered the unsecured convertible bonds due June 2027 for subscription by institutional and other qualified investors. The convertible bonds are convertible into new and/or existing shares in Lehto and were issued in an aggregate principal amount of EUR 15.0 million. Lehto Invest Oy, the largest shareholder in the Company, has subscribed for a total of EUR 10.0 million of the bond.

The Company has not been able to comply with all of the terms and conditions of the convertible bond, and thus bondholders may terminate the bond in accordance with its terms and conditions. For this reason, the convertible bond has been recognised as a current liability. Any changes to the convertible bond will be handled as part of the Company's restructuring proceedings.

Continuity of operations

The continuity of the Company's operations involves significant uncertainties. The Company will not be able to continue to operate unless it sells assets or acquires new financing and starts new cash-flow generating business. For this reason, there are significant grounds to doubt that the Company will be able to continue to operate and make its payments over the next 12 months.

On the date when the financial statements were signed the company has cash assets of approximately 1.8 million euros. Cash adequacy will be affected particularly by:

- asset sales income
- cash income and expenses related to new business and the schedule for the start-up of operations
- financing acquired for new business
- effects of the decisions made in the corporate restructuring proceedings of the parent company.

Personnel and remuneration

The average number of Group personnel during the review period was 483 (860 in 2022). The number of personnel at period-end was 384 (664 on 31 December 2022). About 62 per cent of the Group's personnel are salaried employees and 38 per cent of employees work on construction sites and in factories.

During the year, the Group's personnel decreased by 280 employees, and the number of personnel has decreased further due to the bankruptcies of subsidiaries after the end of the financial period and the scaling down of the parent company's operations.

In March 2023, the Company carried out a directed bonus issue under the authorisation granted by the Annual General Meeting of 2 May 2022, in which 103,782 shares in Lehto Group Plc held by the Company were issued to key persons participating in the 2020 incentive scheme. The issued shares represented 0.12% of the Company's total share capital.

Research and development

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

The development of modules, components and space concepts has been part of continuing operations, and the related costs are largely recorded as an expense in the income statement. During the financial year, no development expenses (EUR 0.4 million in 2022) were capitalized.

Risks and factors of uncertainty

In 2023, all of Lehto's business operations were related to construction. On 8 February 2024, the Lehto subsidiaries engaging in construction operations — Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy — went into bankruptcy, and Lehto no longer engages in actual construction operations. Consequently, the risks associated with construction are no longer relevant to Lehto. Lehto will continue to manufacture construction elements at its factories until further notice, but it is possible that Lehto will also discontinue its factory operations during 2024.

Lehto reviews options to expand to new business areas and acquire new business. The key risks for 2024 are related to starting up new business and arranging the required financing and corporate restructuring proceedings success.

It is possible that the corporate restructuring proceedings concerning Lehto Group Plc will not proceed as planned or the corporate restructuring programme will not be confirmed. In this eventuality, the Company would most likely go bankrupt, and as a result the shareholders and creditors could lose their entire investment and claims. It is also possible that, as a result of the bankruptcies of subsidiaries, claims will be brought against Lehto Group Plc which the Company will not be able to fulfil.

The potential acquisition of new equity financing could result in the significant dilution of shareholdings.

Responsibility and environmental issues

Despite its current lack of business continuity, Lehto aims to act in accordance with the generally accepted principles of responsibility with respect to environmental issues, social responsibility and governance.

During 2024, Lehto will define separate focus areas, targets and metrics for responsibility, along with associated support processes to serve Lehto's business.

The Group's legal structure

At the end of the financial period, the Group was comprised of the parent company, Lehto Group Plc, and its five operative subsidiaries: Lehto Asunnot Oy, Lehto Tilat Oy, Lehto Korjausrakentaminen Oy, Lehto Components Oy and Insinööritoimisto Mäkeläinen Oy. In addition, the Group included one non-operative company in Sweden and temporary real-estate companies or shareholdings in them. All operative subsidiaries were in Finland and the parent company's holding in them was 100%.

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

In February 2024, after the end of the financial period, three subsidiaries of Lehto — Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy — filed for bankruptcy. Also, on March 19, 2024 Lehto sold the entire share capital of its subsidiary Insinööritoimisto Mäkeläinen Oy.

Resolutions of the Annual General Meeting

Lehto Group Plc held its 2023 Annual General Meeting on 30 March 2023, in Oulu at the Technopolis Smarthouse auditorium, located at Elektroniikkatie 8, Oulu. The Annual General Meeting confirmed the financial statements for the financial period 2022 and granted discharge from liability for the Members of the Board and the CEO.

Deciding on the use of the profit shown by the balance sheet and the payment of dividends

In accordance with the proposal of the Board of Directors, the Annual General Meeting (AGM) decided that no dividend would be paid for the financial year ending on 31 December 2022.

Presenting and approving the remuneration report

The Annual General Meeting decided to approve the remuneration report in accordance with the Board's proposal. The decision was advisory.

Board member selection and compensation

The AGM confirmed the number of Board members to be four.

In accordance with the proposal of the Board of Directors, the Annual General Meeting decided to elect the following persons as members of the Board of Directors: Eero Sihvonen, Hannu Lehto, Anne Korkiakoski and Jani Nokkanen. The term of the Board members will expire at the end of the Annual General Meeting 2024.

The Annual General Meeting decided that about 40% of the remuneration paid to members of the Board of Directors is to be paid in Lehto Group Plc shares and the balance in cash. Thereby the Chairman of the Board of Directors is to be paid an annual fee of EUR 69,000, and the Deputy Chairman and members of the Board are each to be paid a fee of EUR 34,500. If a member of the Board of Directors declares that they will refrain from accepting the Company's shares, the remuneration shall be paid solely in cash. Thereby the annual fees paid to Board members are EUR 55,200 to the Chairman, and EUR 27,600 each to the Deputy Chairman and members of the Board.

It was also confirmed that the meeting fees to be paid to Board members for each meeting in the annual calendar, and for other Board meetings in which they participate that last over two hours and for which minutes are kept, shall amount to EUR 1,500 for the Chairman of the Board and EUR 750 each for the Deputy Chairman and members of the Board.

Furthermore, it was confirmed that the meeting fees to be paid to Board committee members for each committee meeting in the annual calendar, and for other committee meetings in which they participate that last over two hours and for which minutes are kept, shall amount to EUR 600 for the Chairman of the committee and EUR 400 each for the committee members.

Reasonable travel expenses related to Board meetings and committee meetings were confirmed to be paid in accordance with the instructions of the Tax Administration, albeit the meeting fees shall include per diems.

Auditor selection and fees

The firm of authorised public accountants KPMG Oy Ab was re-elected as the company's auditor. KPMG Oy Ab has informed the Company that Pekka Alatalo, Authorised Public Accountant (KHT), shall serve as the chief auditor. It was decided that the auditor's fee be paid on the basis of an invoice approved by the Company.

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

The Annual General Meeting authorised the Board to decide on the purchase of a maximum of 8,733,000 of the Company's own shares in one or several instalments using assets belonging to the unrestricted equity of the Company. The shares shall be purchased through public trading organised by NASDAQ OMX Helsinki Oy 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 also entitles the Board of Directors to decide on the purchase of shares other than in proportion to the shares owned by the shareholders (directed purchase). In such a case, there should be sound financial reasons for the company to purchase its own shares. Shares may be purchased to implement the Company's share-based incentive systems, to implement arrangements linked to the Company’s business operations, or otherwise to be transferred or cancelled. The Company may also itself retain the shares acquired.

The Board of Directors makes decisions on all other conditions and matters pertaining to the purchase of own shares. The purchase of own shares reduces the Company’s unrestricted equity. The authorisation is valid until the end of the next Annual General Meeting, but no later than 30 June 2024, and it replaces the previous authorisation concerning the acquisition of the Company's own shares.

Authorising the Board of Directors to decide on a share issue, on the granting of option rights and other special rights entitling to shares, as well as the transfer of own shares

The AGM decided to authorise the Board of Directors to decide on the issue of a maximum of 8,733,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the Company either against payment or as a bonus issue. In deviation from the Company’s shareholders’ pre-emptive subscription rights, new shares may be issued in a directed issue and own shares held by the Company transferred in a directed transfer if there is a compelling financial reason for the Company to do so or, in case of a bonus issue, a particularly compelling financial reason for the Company and to the benefit of all its shareholders to do so. The Board of Directors decides on all other conditions and matters pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares.

Among other things, the authorisation can be used to implement the Company’s share-based incentive schemes, to pay Board fees, to strengthen the capital structure, to expand the ownership base, and to pay consideration in acquisitions and transactions when the Company purchases assets linked to its operations. The authorisation is valid until the end of the next Annual General Meeting, but no later than 30 June 2024, and it replaces the previous issue and option authorisations of the Company.

Minutes of the General Meeting

The minutes of the General Meeting can be found on Lehto Group Plc’s website at https://lehto.fi/en/investors/corporate-governance/annual-general-meeting/

Decisions of the Board’s organisational meeting

At the organisational meeting held after the Annual General Meeting, the Board of Directors of Lehto Group Plc elected Eero Sihvonen as its Chairman. The Board also elected the members of the Audit Committee. The Board of Directors elected Anne Korkiakoski as the Chairman and Eero Sihvonen and Hannu Lehto as the members of the Audit Committee.

Based on the Board of Directors’ assessment of independence, all members of the Board, except Hannu Lehto, are independent of the Company and the significant shareholders of the Company. The composition of the Audit Committee meets the independence requirements set forth in the Corporate Governance Code.

Change in the composition of the Board and Audit Committee on 11 July 2023

Board member Anne Korkiakoski resigned from the Board on 11 July 2023. After her resignation, Eero Sihvonen (Chairman), Hannu Lehto and Jani Nokkanen have continued to serve on the Board.

The Board of Directors noted that after Korkiakoski resigned, the Board of Directors’ composition continues to meet the requirements of the Articles of Association, and that the Shareholders’ Nomination Committee would submit its proposal for the Board’s composition no later than in January 2024 to be decided on at Lehto’s 2024 Annual General Meeting.

After Korkiakoski resigned, the composition of Lehto's Board of Directors no longer meets Recommendation No. 8 (Composition of the Board of Directors) of the Governance Code maintained by the Securities Market Association with regard to Board diversity, as both genders are no longer represented on the Board. The reasons for deviating from the recommendation are described both on Lehto’s website and in the Corporate Governance Statement for 2023.

The members of the Board of Directors, except Hannu Lehto, are independent of the Company and its significant shareholders.

In connection with the resignation of Korkiakoski, the Board also decided to change the composition of the Audit Committee such that Jani Nokkanen was elected as a member of the Audit Committee, and Eero Sihvonen replaced Korkiakoski as the Chairman of the Audit Committee.

Shares and shareholdings

Lehto Group Plc is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of the year was 87,339,410 and the Company had 13,954 shareholders. The Company holds 203,424 of its own shares. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 31 December 2023 was EUR 0.0175. The share's highest rate during the review period was EUR 0.326 and its lowest rate was EUR 0.014. A total of 61,872,140 shares in the Company were traded during the period with a trading value of approximately EUR 5.4 million.

On 4 September 2023, Nasdaq Helsinki put Lehto Group Plc's shares under observation status on the basis of Section 4.1.1(f) of the Nordic Main Market Rulebook for Issuers of Shares.

On 6 February 2024, after the end of the financial period, trading in Lehto Group Plc shares was suspended on Nasdaq Helsinki.

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

Transfers of own shares

In March 2023, the Company carried out a directed bonus issue under the authorisation granted by the Annual General Meeting of 2 May 2022, in which 103,782 shares in Lehto Group Plc held by the Company were issued to key persons participating in the 2020 incentive scheme. The issued shares represented 0.12% of the Company's total share capital.

Significant events after the reporting period

6 February 2024: subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy filed for bankruptcy.

8 February 2024: subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy went into bankruptcy.

15 February 2024: Lehto Group Plc applied for corporate restructuring.

15 February 2024: Lehto announced changes to the publication date of the financial statements bulletin and the date of the Annual General Meeting, and that it would change over to half-year reporting.

16 February 2024: the corporate restructuring proceedings of Lehto Group Plc were initiated.

27 February 2024: Lehto announced changes in the Group's management structure and the discontinuation of the Group's Executive Board until further notice.

6 March 2024: Lehto announced that Lehto Group Plc's equity had become negative.

19 March 2024: Insinööritoimisto Mäkeläinen Oy was divested.

Outlook for 2024

Lehto Group lacks business continuity, as its former construction-related business has ceased due to the bankruptcies of its subsidiaries. Lehto plans to divest its whole construction business and any holdings related thereto and reviews options to expand to new business areas and acquire new business.

In this situation, Lehto cannot present an estimate of its financial development.

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

The parent company doesn't have distributable funds because its equity is EUR -15,577,786, of which the result for the financial year is EUR -63,352,210.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the 1 January–31 December 2023 financial year.

Vantaa, 29 April 2024

Lehto Group Plc
Board of Directors

Financial Statements 2023

Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

1 000 EUR

Continuing operations	Note	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Net sales	3	171 821	344 791
Other operating income	4	2 961	1 110
Changes in inventories of finished goods and work in progress		-78 130	-5 846
Material and services		-116 254	-312 078
Employee benefit expenses	5	-24 019	-48 773
Depreciation and impairments	6	-7 168	-5 885
Impairment loss from goodwill	11	-4 624	0
Other operating expenses	7	-17 435	-15 511
Operating result		**-72 848**	**-42 192**
Financial income	8	76	41
Financial expenses	8	-6 054	-3 362
Result before taxes		-78 827	-45 513
Income taxes	9, 18	-129	-13 285
Result for the financial year from continuing operations		**-78 955**	**-58 797**
Result for the financial year from discontinued operations	2	-93	32 146
Result for the financial year		**-79 049**	**-26 651**
Result attributable to			
Equity holders of the parent company		-79 049	-26 652
Non-controlling interest		1	1
		-79 049	-26 651
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	23	119	25
		119	25
Comprehensive result attributable to			
Equity holders of the parent company		-78 931	-26 627
Non-controlling interest		1	1
		-78 930	-26 626
Earnings per share calculated from the result attributable to equity holders of the parent company, EUR per share	10		
Issue-adjusted average number of outstanding shares during the period, basic		87 257 649	87 276 343
Issue-adjusted average number of outstanding shares during the period, diluted		87 332 931	87 433 988
Earnings per share, basic, EUR/share		-0,91	-0,31
Earnings per share, diluted, EUR/share		-0,91	-0,31
Earnings per share, continuing operations, basic, EUR/share		-0,90	-0,67
Earnings per share, continuing operations, diluted, EUR/share		-0,90	-0,67
Earnings per share, discontinued operations, basic, EUR/share		-0,00	0,37
Earnings per share, discontinued operations, diluted, EUR/share		-0,00	0,37

CONSOLIDATED BALANCE SHEET, IFRS

1 000 EUR

	Note	31 Dec 2023	31 Dec 2022
ASSETS			
Non-current assets			
Goodwill	11	0	4 624
Other intangible assets	12	423	1 427
Property, plant and equipment	13	6 603	13 571
Investment properties	14	660	676
Investments in associated companies	15	780	0
Other financial assets	16	971	971
Receivables	17	2 463	6 461
Deferred tax assets	18	0	0
Non-current assets, total		**11 900**	**27 730**
Current assets			
Inventories	19	73 591	172 060
Trade and other receivables	20	12 107	50 389
Current tax assets	19	0	0
Financial assets at fair value through profit or loss	21	328	314
Cash and cash equivalents	22	5 802	12 922
Current assets, total		**91 828**	**235 684**
Non-current assets held for sale	2	0	3 824
TOTAL ASSETS		**103 729**	**267 238**
EQUITY AND LIABILITIES			
Equity			
Share capital		100	100
SVOP - Reserve for invested unrestricted equity		88 695	88 695
Translation difference		-110	-229
Retained earnings		-101 076	-22 003
Capital attributable to equity holders of the parent company		**-12 391**	**66 563**
Non-controlling interest		9	9
Equity, total	23	**-12 382**	**66 571**
Non-current liabilities			
Deferred tax liabilities	18	0	0
Provisions	24	7 745	5 928
Financial liabilities	25,27	0	11 670
Lease liabilities	25,27,28	53 585	68 405
Other non-current liabilities	26	110	206
Non-current liabilities, total		***61 441***	***86 209***
Current liabilities			
Provisions	24	2 931	7 590
Liabilities to customers for constructing contracts (advances received)	26	1 657	20 591
Trade and other payables	26	23 922	54 639
Current income tax liabilities	26	0	0
Financial liabilities	25,27	20 621	22 195
Lease liabilities	25,27,28	5 538	9 442
Current liabilities, total		***54 670***	***114 457***
Liabilities, total		**116 110**	**200 667**
TOTAL EQUITY AND LIABILITIES		**103 729**	**267 238**

CONSOLIDATED CASH FLOW STATEMENT, IFRS

1 000 EUR

	Note	31 Dec 2023	31 Dec 2022
Cash flow from operating activities			
Result for the financial year		-79 049	-26 651
Adjustments:			
Non-cash items		-2 880	-8 282
Depreciation and impairment		11 792	5 885
Financial income and expenses		5 898	3 319
Capital gains		-376	-31 611
Income taxes		129	13 704
Changes in working capital:			
Change in trade and other receivables		42 250	25 607
Change in inventories		83 608	8 868
Change in trade and other payables		-57 511	-18 975
Interest paid and other financial expenses		-6 732	-5 392
Financial income received		74	135
Income taxes paid		-129	-299
Net cash from operating activities		**-2 925**	**-33 693**
Cash flow from investments			
Investments in property, plant and equipment		-41	-433
Investments in intangible assets		-15	-400
Proceeds from sale of property, plant and equipment and intangible assets		4 776	109
Sale of discontinued operations (less cash at the time of sale)		0	28 722
Financial assets at fair value through profit or loss		14	-200
Repayments of loan receivables		37	43
Acquisition of associated companies		-780	0
Dividends received		0	0
Net cash from investments		**4 770**	**27 840**
Cash flow from financing			
Loans drawn	25	3 447	28 000
Loans repaid	25	-10 182	-38 313
Lease liabilities paid	25,28	-1 408	-2 193
Loan arrangement fees		0	-1 116
Costs related to repurchasing own shares		-28	0
Net cash used in financing activities		**-8 143**	**-13 621**
Change in cash and cash equivalents (+/-)		**-6 298**	**-19 474**
Effects of exchange rate change		1	-59
Cash and cash equivalents at the beginning of the financial year		13 236	32 769
Cash and cash equivalents at the end of the financial year	21, 22	**6 938**	**13 236**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, IFRS

1 000 EUR

	Capital attributable to equity holders of the parent company						
	Share capital	**SVOP - Reserve for invested unrestricted**	**Translation difference**	**Retained earnings**	**Capital attributable to equity holders of**	**Non-controlling interest**	**Equity, total**
Equity on 1 January 2022	**100**	**88 695**	**-254**	**2 389**	**90 930**	**8**	**90 938**
Comprehensive income							
Result for the financial period				-26 652	**-26 652**	1	**-26 651**
Other comprehensive income items							
Translation difference			25		**25**		**25**
Total comprehensive income			*25*	*-26 652*	***-26 627***	*1*	***-26 626***
Transactions with equity holders							
The equity component separated from the convertible bond				2 231	2 231		2 231
Share-based compensation				28	**28**		**28**
Transactions with equity holders, total				*2 260*	***2 260***		***2 260***
Equity on 31 December 2022	**100**	**88 695**	**-229**	**-22 003**	**66 563**	**9**	**66 571**
Equity on 1 January 2023	**100**	**88 695**	**-229**	**-22 003**	**66 563**	**9**	**66 571**
Comprehensive income							
Result for the financial period				-79 049	**-79 049**	1	**-79 049**
Other comprehensive income items							
Translation difference			119		**119**		**119**
Total comprehensive income			*119*	*-79 049*	***-78 931***	*1*	***-78 930***
Transactions with equity holders							
Repurchasing own shares				-28	**-28**		**-28**
Share-based compensation				5	**5**		**5**
Transactions with equity holders, total				*-23*	***-23***		***-23***
Equity on 31 December 2023	**100**	**88 695**	**-110**	**-101 076**	**-12 391**	**9**	**-12 382**

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 address is Voimatie 6, 90440 Kempele, Finland.

Lehto Group Plc's Board of Directors approved the financial statements on 29 April 2024. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements. Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland.

CONTINUITY OF OPERATIONS

These financial statements have not been prepared in accordance with the continuity of operations principle. After the end of the financial period on February 8, 2024, Lehto Group Plc's operational subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy were declared bankrupt, which is also taken into account in the valuation of the balance sheet items in the financial statement information. Lehto Asunnot Oy, Lehto Tilat Oy, and Lehto Korjausrakentaminen Oy cover practically Lehto's whole housing construction and business premises construction businesses and thus they make up most of the net sales of Lehto Group. In addition, on February 16, 2024, Lehto Group Plc was ruled to corporate restructuring by the District Court's decision. As part of the corporate restructuring proceedings Lehto plans to divest its whole construction business and any holdings related thereto and reviews options to expand to new business areas and acquire new business.

The covenant terms of the company's key RCF financing agreement were not met on the closing date. The responsibilities and obligations related to this financing agreement are taken into account in the Company's restructuring programme. The Company has also issued convertible bonds of EUR 15.0 million, which are convertible into new and/or existing shares in Lehto. The Company has not been able to comply with all of the terms and conditions of the convertible bond, which is why the convertible bond is classified as current liabilities. Any changes to the convertible bonds will be dealt with as part of the Company's restructuring proceedings.

The continuity of the Company's operations involves significant uncertainties. The Company will not be able to continue to operate unless it sells assets or acquires new financing and starts new cash-flow generating business. Due to these factors, there are significant grounds for doubting that the Company will be able to continue to operate and make payments over the next 12 months. The future development of the company's cash assets will be influenced particularly by asset sales income, cash income and expenses related to new business and the schedule for the start-up of operations, financing acquired for new business and effects of the decisions made in the corporate restructuring proceedings of the parent company.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

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

The preparation of financial statements in accordance with IFRS standards requires the management to make future-oriented accounting estimates and assumptions 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.

When preparing the financial statements for year 2023, the management's judgment has been particularly related to the assessment of the basis of the continuity of operations and the valuation of assets. Lehto's construction businesses, which have made up most of the net sales, have been declared bankrupt on February 8, 2024, and the parent company has been ruled to corporate restructuring by the District Court's decision on February 16, 2024. The bankrupt subsidiaries have been consolidated to the 2023 financial statements. After the end of the financial year, Lehto has lost control over the bankrupt companies. There is significant uncertainty regarding the group's ability to continue its operations, which is why the financial statement information have not been prepared based on the assumption of continuity of operations. The assets of bankrupt companies have been valued at a maximum of the total amount of their companies' debts, taking into account also the effects of impairment due to the loss of receivables realized in bankruptcy and the goodwill of the group, which in its entirety is directed to the bankrupt businesses written off the balance sheet.

The valuation of assets remaining in the group is based on an estimate of the amounts of money that can be collected in situations where they fall below the accounting value formed on the basis of the continuity principle. The parent company's corporate restructuring proceedings and its contents, which will be specified later, may affect the valuation of the company's assets and liabilities.

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. Lehto's construction businesses, which have made up most of the net sales, have been declared bankrupt on February 8, 2024. At the end of the financial year, the bankrupt companies had 5 unfinished projects in progress, two of which were completed and handed over before the bankruptcy. As a result of the bankruptcy, the construction sites of the bankrupt companies are no longer under the control of the Group, but the assets and liabilities of the subsidiaries in question are under the control of the bankruptcy estates.

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. In the financial statements, the majority of inventories consist of the assets of companies that went bankrupt after the end of the financial year. The value of the inventory is based on the estimated net realizable value, taking into account the basis for valuing the total assets of bankrupt companies, according to which the assets are valued no more than the amount of the companies' total liabilities.

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

The Group's total goodwill, EUR 4.3 million, was entirely aimed at the business carried out by the construction business subsidiaries that were placed in bankruptcy. Goodwill has been written off the balance sheet in the financial statements as an impairment loss.

Deferred tax assets

The company does not present deferred tax assets and liabilities in the balance sheet, but in the note "Deferred taxes" it is shown the amounts that have been recorded before deducting them from each other based on the group's right to net them against each other. The netted deferred tax assets and liabilities are related to lease agreements. Deferred tax assets recognized for losses relate to continuing operations and have only been recognized to the extent that it is probable that taxable income will be generated in the future against which the temporary difference can be utilized.

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 2023. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation, complementing the IFRS regulations.

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

Principles of consolidation

The consolidated financial statements include the parent company Lehto Group Plc and all subsidiaries in which the parent company at the time of financial statements 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.

The financial statements include the income statement and balance sheet items of the bankrupt subsidiaries. Income statement items are presented as continuing operations and assets are valued at a maximum of the total liabilities of the respective companies, also taking into account the effects of impairment due to the loss of receivables realized in bankruptcy.

Non-current assets held for sale and discontinued operations

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

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

The pipeline renovations operations sold during the previous year, as well as Swedish operations discontinued earlier, have been presented as discontinued operations in these financial statements. Continuing and discontinued operations are presented separately in the consolidated income statement. Discontinued operations are presented as a separate item and internal transactions between discontinued operations have been eliminated from the figures.

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

For the sake of clarity, let it be stated that the assets of the bankrupt companies are not classified as discontinued operations on 31 December 2023, but are presented as continuing operations.

Property, plant and equipment

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

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

Goodwill

Goodwill arising in business combinations is measured as the excess of the total of the consideration transferred, the non-controlling interest in the acquiree and the previously held interest over the fair value of the acquired net assets. Goodwill is tested for impairment annually and whenever there is any indication that an asset may be impaired. For this purpose, goodwill is allocated to cash-generating units. Goodwill is recognised at cost less accumulated impairment losses.

After the review period, on February 8, 2024 the operative subsidiaries of Lehto Group Plc, Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, have been declared bankrupt. Those companies cover practically Lehto's whole housing construction and business premises construction businesses and thus they make up most of the net sales of Lehto Group, which is why there is no longer a basis for the goodwill, and the entire goodwill has been completely written off as an impairment loss in these financial statements.

Other intangible assets

Other intangible assets

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

Intangible rights are mostly software and licenses. The group's intangible assets have finite useful lives, and they are amortised in straight-line instalments during their estimated useful lives.

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

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

Investment properties

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

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

Impairment of intangible assets and property, plant and equipment

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

After the review period, on February 8, 2024 the operative subsidiaries of Lehto Group Plc, Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, have been declared bankrupt. Those companies cover practically Lehto's whole housing construction and business premises construction businesses and thus they make up most of the net sales of Lehto Group, which is why there is no longer a basis for the goodwill, and the entire goodwill has been completely written off as an impairment loss in these financial statements.

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.

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.

In the financial statements, the majority of inventories consist of the assets of companies that went bankrupt after the end of the financial year. The value of the inventory at a maximum of the total liabilities is based on the estimated net realizable value, taking into account the basis for valuing the total assets of bankrupt companies, according to which the assets are valued at a maximum of the companies' total liabilities.

Financial assets and liabilities

Financial assets

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

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

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

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

Financial assets recognised at amortised cost

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

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

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

Financial assets at fair value through profit or loss

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

Financial liabilities

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

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

Capitalisation of borrowing costs

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

Provisions

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

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

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

Leases

Group as lessee

The Group has long-term of land leases related to developer-contracted construction, which often have a lease period of up to 50-70 years. Land leases related to inventories are in the possession of the company during the project design and construction phase, that is, only a few years, but under IFRS 16 they must be classified as right-of-use assets and liabilities. Right-of-use inventories are presented in the balance sheet in inventories in the same way as inventories held by the Group. At the time of handing over the developer-contracted project, the management and ownership of the land lease will also be transferred to the customer, and the company will currently derecognise the fixed assets from inventories and lease liabilities without income statement entries.

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

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

Of the right-of-use assets and lease liabilities included in the financial statements, a significant portion is related to contracts entered into by companies that went bankrupt after the end of the financial year, and at the time the financial statements are completed, they are no longer under the control of the group, but the assets and liabilities of the subsidiaries in question are under the control of the bankruptcy estates.

Group as lessor

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

Sale and leaseback

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

Revenue recognition principles

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

Performance obligations

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

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

Transaction price

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

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

Revenue recognition principles related to construction projects

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

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

Sales recognised as revenue over time

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

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

Sales recognised as revenue upon delivery

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

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

Revenue recognition principles related to other incomes

Sales recognised as rental income

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

Recognition of interest and dividend income

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

Operating result

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

Employee benefits

Pension obligations

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

Share-based payments

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

Related party transactions

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

Income taxes

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

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

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

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 2023 or thereafter.

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

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

Amendments to IAS 8 Accounting Policies – Definition of Accounting Estimates

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

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

The following new and amended standards for the preparation of consolidated financial statements are effective for financial periods starting on or after 1 January 2024:

Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current Date; Classification of Liabilities as Current or Non-current – Deferral of Effective Date; Non-current Liabilities with Covenants

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 000 EUR

1. OPERATING SEGMENTS

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

After the review period, on February 8, 2024 the operative subsidiaries of Lehto Group Plc, Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, have been declared bankrupt. Those companies cover practically Lehto's whole housing construction and business premises construction businesses and thus they make up most of the net sales of Lehto Group. Also, On February 16, 2024 the District Court has ruled Lehto Group Plc to corporate restructuring. As part of the corporate restructuring proceedings Lehto plans to divest its whole construction business and any holdings related thereto and reviews options to expand to new business areas and acquire new business. These events after the financial year are described in more detailed in the note "32. Events after the financial year".

Result	**2023**	**2022**
Net sales	**171 821**	**344 791**
Other operating income	2 961	1 110
Operating expenses	-235 837	-382 208
Depreciation and impairments	-11 792	-5 885
Operating result	**-72 848**	**-42 192**
Financial income	76	41
Financial expenses	-6 054	-3 362
Segment's result before income taxes	**-78 827**	**-45 513**
Assets		
Segment's assets	**103 729**	**267 238**
Investments	57	834
Liabilities		
Segment's liabilities	**116 110**	**200 667**

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 41.4 million in 2023 (EUR 67.4 million in 2022), corresponding to approx. 24% (20%) of the segment's net sales. In 2023, the share of net sales of the largest individual customer was 11.5% (10.9% in 2022).

Order backlog	**31 Dec 2023**	**31 Dec 2022**
Order backlog	**0**	**205 937**
of which is likely to generate income within a year		169 307
of which is likely to generate income after one year		36 629

The company no longer has an order backlog because the operative companies engaged in construction business have been declared bankrupt on February 8, 2024.

2. DISCONTINUED OPERATIONS AND NON-CURRENT ASSTES HELD FOR SALE

Discontinued operations

Pipeline renovation business sold in previous year, as well as earlier discontinued Swedish operations, are presented as discontinued operations. Notes to income statement are presented only from continuing operations.

Result for the financial year from discontinued operations	**2023**	**2022**
Net sales		17 441
Other operating income		99
Expenses	-60	-15 834
Operating result	***-60***	***1 705***
Financial items	-33	2
Taxes		-419
Result for the financial year	***-93***	***1 288***
Gain on sale of discontinued operations		31 502
Costs related to sale of discontinued operations		-644
Result for the financial year from discontinued operations	***-93***	***32 146***
Earnings per share, discontinued operations, basic, EUR/share	0,00	0,37
Earnings per share, discontinued operations, diluted, EUR/share	0,00	0,37

Effect of disposal of financial position of the Group	**2022**
Non-current assets	-38
Inventories	-69
Trade and other receivables	-3 873
Cash and cash equivalents	-2 817
Current liabilities	6 760
Net assets and liabilities	**-37**

Consideration received from sale of discontinued operations	31 539
Cash and cash equivalents disposed of	-2 817
Net cash flow	**28 722**

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

Non-current assets held for sale

Lehto Group Plc's subsidiary Lehto Components Oy sold its factory building and related warehouse buildings to City of Oulainen in March 2023. The size of the factory building was approximately 10 000 square meters. The factory building and related warehouse buildings were presented as non-current assets held for sale on balance sheet on 31 December, 2022. The acquisition cost of factory in balance sheet was then EUR 3.8 million and the sales price approximately EUR 4.7 million.

3. NET SALES

	2023	2022
Revenue recognised over time	112 372	269 968
Revenue recognised upon delivery	59 198	74 558
Rental income	250	265
Total	**171 821**	**344 791**

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

Revenue recognised that was included in the contract liability balance (liabilities to customers for constructing contracts) at the beginning of the year was EUR 18.9 (18.8) million.

4. OTHER OPERATING INCOME

	2023	2022
Rental income	18	27
Grants	227	193
Damages	1 521	510
Capital gains	968	87
Other income	228	294
Total	**2 961**	**1 110**

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

5. EMPLOYEE BENEFIT EXPENSES

	2023	2022
Salaries and wages	19 940	40 294
Share-based incentives, to be paid out in shares	27	98
Pension costs– defined contribution plans	3 333	6 984
Other personnel costs	719	1 397
Total	**24 019**	**48 773**

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

Number of personnel in average during the year, Group	**2023**	**2022**
Salaried employees	287	474
Workers	196	386
Total	**483**	**860**

Number of personnel at the end of the financial year, Group	**2023**	**2022**
Salaried employees	238	386
Workers	146	278
Total	**384**	**664**

6. DEPRECIATION AND IMPAIRMENTS

Depreciation of property, plant and equipment	2023	2022
Machinery and equipment		
Machinery and equipment	938	1 095
Machinery and equipment, right-of-use asset	58	58
Properties		
Properties in own use	426	743
Business premises, right-of-use asset	678	1 230
Inventories, right-of-use asset	1 266	1 664
Other tangible assets	111	115
Total	**3 477**	**4 906**

Depreciation of intangible assets	2023	2022
Customer relationships		
Other intangible assets	818	962
Total	**818**	**962**

Depreciation of investment properties	2023	2022
Buildings and structures	16	17
Total	**16**	**17**

Impairments	2023	2022
Goodwill	4 624	
Intangible assets	202	
Property, plant and equipment: Properties in own use	1 860	
Machinery and equipment and other tangible assets	796	
Total	**7 481**	**0**
Depreciation and impairments, total	**11 792**	**5 885**

7. OTHER OPERATING EXPENSES

	2023	2022
Voluntary personnel expenses	355	1 152
Costs related to construction site and office space	2 346	3 385
IT and equipment expenses	2 195	3 107
Travel expenses	725	2 026
Product development expenses	125	774
Marketing expenses	456	1 645
Administrative services	4 549	2 038
Reduction from expected credit loss	-34	19
Other operating expenses	6 717	1 364
Total	**17 435**	**15 511**

Fees paid to auditor:	**2023**	**2022**
Audit fees	195	245
Certificates and statements	1	6
Tax services	0	1
Other services	21	5
Total	*217*	*256*

8. FINANCIAL INCOME AND EXPENSES

Financial income	**2023**	**2022**
Dividend income	0	0
Other financial income	76	41
Total	**76**	**41**

Financial expenses	**2023**	**2022**
Interest expenses	1 479	1 165
Interest expenses from lease liabilities	2 026	
Capitalised interest expenses	-2 112	-2 600
Other financial expenses	4 662	2 643
Total	**6 054**	**3 362**
Financial income and expenses, total	**-5 979**	**-3 321**

9. INCOME TAXES

	2023	**2022**
Current income tax	129	299
Change deferred tax assets	0	12 831
Change deferred tax liabilities	0	154
Total	**129**	**13 285**

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country	**2023**	**2022**
Tax rate	20,0 %	20,0 %
Result from continuing operations before taxes	-78 827	-45 513
Taxes calculated at the tax rate of the domicile country	-15 765	-9 103
Tax-exempt income	30	-273
Non-deductible expenses	1 617	507
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	-985	-773
Taxes from previous years	28	
Write-off of previously recorded deferred taxes		13 285
Unrecognized deferred tax asset from losses	15 203	9 642
Total	**129**	**13 285**

10. SHARE-BASED KEY FIGURES

	2023	2022
Result for the financial year attributable to equity holders of the parent company	-79 049	-26 652
Issue-adjusted average number of outstanding shares during the period, basic	87 257 649	87 276 343
Issue-adjusted average number of outstanding shares during the period, diluted	87 332 931	87 433 988
Earnings per share, basic, EUR/share	-0,91	-0,31
Earnings per share, diluted, EUR/share 1)	-0,91	-0,31
Earnings per share, continuing operations, basic, EUR/share	-0,90	-0,67
Earnings per share, continuing operations, diluted, EUR/share 1)	-0,90	-0,67
Earnings per share, discontinued operations, basic, EUR/share	0,00	0,37
Earnings per share, discontinued operations, diluted, EUR/share 1)	0,00	0,37

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

Issue-adjusted number of outstanding shares at the end of the year	87 135 986	87 311 287
Equity / share	-0,14	0,76
Dividend per share paid in fiscal year	-	-
Dividend proposal per share from fiscal year	-	

11. GOODWILL

Cash-generating unit: Building Services	**2023**	**2022**
Goodwill at 1 Jan.	4 624	4 624
Impairment	-4 624	0
Goodwill at 31 Dec.	**0**	**4 624**

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

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

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

The Group's total goodwill, EUR 4.3 million, was entirely aimed at the business carried out by the construction business subsidiaries that were placed in bankruptcy. Goodwill has been written off the balance sheet as an impairment loss.

12. OTHER INTANGIBLE ASSETS

Other intangible assets 2023	Total
Acquisition cost at 1 Jan. 2023	9 226
Increases	15
Acquisition cost at 31 Dec. 2023	**9 242**
Accumulated depreciation and amortisation at 1 Jan. 2023	-7 799
Depreciation	-818
Impairments	-202
Accumulated depreciation and amortisation at 31 Dec. 2023	**-8 818**
Carrying amount at 1 Jan. 2023	1 427
Carrying amount at 31 Dec. 2023	**423**

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

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2023	Right-of-use asset	Properties in own use	Machinery and equipment and other tangible assets	Total
Acquisition cost at 1 Jan. 2023	10 010	10 436	16 705	37 151
Increases	162	138	9	308
Decreases	-1 728	-185	-496	-2 409
Acquisition cost at 31 Dec. 2023	**8 444**	**10 389**	**16 218**	**35 051**
Accumulated depreciation and amortisation at 1 Jan. 2023	-6 517	-4 095	-12 968	-23 581
Depreciation	-736	-426	-1 049	-2 212
Impairments		-1 860	-796	-2 655
Accumulated depreciation and amortisation at 31 Dec. 2023	**-7 254**	**-6 380**	**-14 813**	**-28 447**
Carrying amount at 1 Jan. 2023	3 492	6 341	3 737	13 571
Carrying amount at 31 Dec. 2023	**1 190**	**4 009**	**1 405**	**6 603**

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

14. INVESTMENT PROPERTIES

Investment properties 2023	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2023	202	809	1 011
Acquisition cost at 31 Dec. 2023	**202**	**809**	**1 011**
Accumulated depreciation and amortisation at 1 Jan. 2023		-335	-335
Depreciation		-16	-16
Accumulated depreciation and amortisation at 31 Dec. 2023		**-352**	**-352**
Carrying amount at 1 Jan. 2023	202	474	676
Carrying amount at 31 Dec. 2023	**202**	**458**	**660**

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

Net rental income	2023	2022
Rental income from investment properties	62	78
Direct maintenance costs for investment properties	32	36
Net rental income, total	**30**	**42**

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 2023	Fair value 2022
Business property	Acquisition cost	3	453	558
Land area	Acquisition cost	3	202	202
			655	**760**

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

	2023	2022
Investments in associated companies at 1 Jan.	0	
Increases	780	
Share of profit or loss for the financial year	0	
Investments in associated companies at 31 Dec.	**780**	**0**

During the financial year, the Group has acquired a small business-related property management associate company.

16. OTHER FINANCIAL ASSETS

Financial assets recognised through profit and loss	2023	2022
Financial assets recognised through profit and loss at 1 Jan.	971	771
Increases		200
Financial assets recognised through profit and loss 31 Dec.	**971**	**971**

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.

17. NON-CURRENT RECEIVABLES

Non-current receivables include items from companies that went bankrupt after the end of the financial year. The specifications of these are presented in the note "32. Events after the financial year".

	2023	2022
Non-current project related bank deposits	2 364	6 313
Non-current loan receivables	44	92
Other non-current receivables	56	56
Total	**2 463**	**6 461**

18. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets 2023	1 Jan 2023	Recognised in income statement	31 Dec 2023
Confirmed losses	932	-297	635
Lease liabilities	15 569	-3 745	11 825
Other temporary differences		-5	
Netting deferred tax assets and liabilities	-16 502	4 047	-12 460
Total	**0**	**0**	**0**

Deferred tax liabilities 2023	1 Jan 2023	Recognised in income statement	31 Dec 2023
Temporary differences from capitalisation of financial expenses	32	-32	
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	4	-4	
Right-of-use assets	14 036	-3 029	11 006
Depreciation difference with taxation	171	-171	
Convertible bonds	668	-83	585
Other temporary differences	58	-83	18
Netting deferred tax assets and liabilities	-14 968		-11 609
Total	**0**	**0**	**0**

Confirmed losses for which no deferred tax receivables have been recognized were EUR 224.6 (148.2) million, of which EUR 167.9 million are confirmed losses by subsidiaries that have been, after the review period, declared to bankruptcy. Of total losses EUR 224.6 million, EUR 208.9 (132.2) million are allocated to Finland and EUR 15.7 (15.9) million to Sweden. The change in Sweden is mainly due to the change in the exchange rate. These losses will expire from 2030 onwards.

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

Deferred tax assets 2022	1 Jan 2022	Recognised in income statement	31 Dec 2022
Fixed assets internal margin	37	-37	
Tax losses carried forward	9 587	-8 654	932
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	4 138	-4 138	
Lease liabilities	18 089		15 569
Other temporary differences	35	-35	
Adjustment from discontinued operations		33	
Netting deferred tax assets and liabilities		2 520	-16 502
Total	**31 886**	**-12 831**	

On Dec 31, 2022 the Group wrote down deferred tax assets because the Group considers it possible that it will not have taxable income before the losses expire.

Deferred tax liabilities 2022	1 Jan 2022	Booked to equity	Recognised in income statement	31 Dec 2022
Temporary differences from capitalisation of financial expenses	7		25	32
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation			4	4
Right-of-use assets	17 957			
Depreciation difference with taxation	214		-43	171
Convertible bonds		558	110	668
Other temporary differences			58	58
Netting deferred tax assets and liabilities				-14 968
Total	**18 177**	**558**	**154**	**0**

19. INVENTORIES

Inventories include items from companies that went bankrupt after the end of the financial year. The specifications of these is presented in the note "32. Events after the financial year".

	2023	2022
Materials and supplies	1 048	2 472
Work in progress	4 808	75 731
Right-of-use asset	55 031	70 178
Completed products	11 975	21 036
Inventory shares	29	49
Other inventories	701	2 593
Total	**73 591**	**172 060**

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

20. TRADE AND OTHER RECEIVABLES

Trade and other receivables include items from companies that went bankrupt after the end of the financial year. The specifications of these are presented in the note "32. Events after the financial year".

	2023	2022
Trade receivables	5 108	21 810
Loan receivables	535	571
Security deposits	38	2 239
Other receivables	864	366
Receivables from customers for constructing contracts	4 996	24 371
Adjusting entries for assets	566	1 032
Total	**12 107**	**50 389**

Ageing analysis of trade receivables and receivables from customers for constructing contracts	2023	2022
Not yet due		
Trade receivables	1 475	18 894
Receivables from customers for constructing contracts	4 996	24 371
Reduction from expected credit loss	-81	-114
Due for		
less than 30 days	1 742	1 621
30–60 days	7	27
61–90 days	780	14
more than 90 days	1 184	1 368
Total	**10 104**	**46 181**

The carrying amount of receivables corresponds to their fair value.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
Financial assets at fair value through profit or loss	328	314
Total	**328**	**314**

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

22. CASH AND CASH EQUIVALENTS

	2023	2022
Cash in hand and at banks	5 802	12 922
Total	**5 802**	**12 922**

23. EQUITY

	Number of shares	Share capital	SVOP - Reserve for invested unrestricted equity	Total
31 December 2021	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	179 965			
Outstanding shares on 31 December 2021	**87 159 445**			
31 December 2022	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	28 123			
Outstanding shares on 31 December 2022	**87 311 287**			
31 December 2023	**87 339 410**	**100**	**88 695**	**88 795**
of which company holds	203 424			
Outstanding shares on 31 December 2023	**87 135 986**			

Shares and share capital

At balance sheet date, the number of shares totalled 87,339,410, of which the company holds 203,424 shares. The share capital is EUR 100,000. The company has one series of shares, and all shares are of the same class. Each share entitles its holder to one vote in the General Meeting of Shareholders and to an equal amount of dividend.

Transfer of own shares
In March 2023, with the authorization given by the Annual General Meeting held on May 2, 2022, the company carried out a directed share issue without consideration, 103,782 shares, to implement the share-based incentive plan.

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

Share-based compensations
On 20 December 2016, The Board of Directors of Lehto Group Plc 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.

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 2023 company decided on a directed share issue free of consideration related to the reward payment for the performance period 2020. In the share issue 103,782 Lehto Group Plc's shares owned by the company were issued free of consideration to group key employees in accordance with the terms and conditions of the plan. The Issue Shares corresponded to approximately 0.12 per cent of Lehto's shares and votes prior to the share issue. For the earning period 2021 the performance bonus for members of the share plan was EUR 15,000, converted to shares 52,000.

In 2022-2023 The Board of Directors did not decide on a new share-based incentive plans program and thus no performance bonuses will be paid as shares from year 2022 and 2023. Incentive plans program from year 2021 details are presented below:

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

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

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

In addition to long-term incentive plan, the Company has restricted share plan. The reward from the restricted share plan is based on a key employee's valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

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 2023.

24. PROVISIONS

Provisions include items from companies that went bankrupt after the end of the financial year. The specifications of these are presented in the note "32. Events after the financial year".

Provisions 2023	**Guarantee provisions**	**Onerous projects**	**Restructuring provision**	**Total**
1 Jan. 2023	11 072	2 317	128	13 518
Increases	4 213			4 213
Decreases	-4 622	-2 304		-6 926
Decreases, discontinued operations			-128	-128
31 Dec. 2023	**10 663**	**13**		**10 676**
of which non-current	*7 745*			*7 745*
of which current	*2 918*	*13*		*2 931*

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

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

25. FINANCIAL LIABILITIES

Financial liabilities include items from companies that went bankrupt after the end of the financial year. The specifications of these are presented in the note "32. Events after the financial year".

	2023	**2022**
Non-current loans from financial institutions	0	9
Convertible bonds		11 661
Non-current lease liabilities	53 585	
Total	**53 585**	**80 075**
	2023	**2022**
Current loans from financial institutions	3 427	13 033
Convertible bonds	12 074	
VAT loan arrangement with the Tax Administration	2 880	0
Debts on shares in unsold housing and real estate company shares in progress		3 979
Debts on shares in unsold housing and real estate company shares completed	2 241	5 184
Current lease liabilities	5 538	
Total	**26 159**	**31 637**
Financial liabilities, total	**79 745**	**111 712**

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

Financial liabilities 2023	Non-current financial liabilities	Current financial liabilities	Total
1 Jan. 2023	80 075	31 637	111 712
Changes during the period:			
Cash flows	-14 059	5 915	-8 143
Non-cash flows	-12 431	-4 471	-16 902
Unsold housing and real estate company shares completed		-6 922	-6 922
31 Dec. 2023	**53 585**	**26 159**	**79 745**

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

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

Convertible bonds

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

Terms of convertible bonds

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

The Company has not been able to comply with all of the terms and conditions of the convertible bond, which is why the convertible bond is classified as current liabilities.

Proceeds from issue of convertible bonds	15 000
Transaction costs	-708
Net proceeds	*14 292*
The equity component separated from the convertible bond before taxes	-2 789
Accreted interest	158
Convertible bonds on 31 Dec.2022	**11 661**
Accreted interest, fiscal year	413
Convertible bonds on 31 Dec.2023	**12 074**

Interest liabilities in adjusting entries for liabilities include cumulative accreted PIK interest 31Dec 2023	900

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

Trade and other non-interest-bearing liabilities include items from companies that went bankrupt after the end of the financial year. The specifications of these is presented in the note "32. Events after the financial year".

Non-current non-interest-bearing liabilities	**2023**	**2022**
Non-current non-interest-bearing liabilities	110	206
Total	**110**	**206**

Current non-interest-bearing liabilities	**2023**	**2022**
Liabilities to customers for constructing contracts (advances received)		
From projects where revenue recognised over time	1 489	12 165
From projects where revenue recognised upon delivery		
Payments received from customers in sold housing and real estate shares in progress		3 530
Debts on shares in sold housing and real estate shares in progress		4 039
Other liabilities to customers for constructing contracts	168	858
Trade payables	10 472	24 820
Other liabilities		
Liabilities paid to the Tax Administration	2 733	10 638
Other liabilities	2 417	4 714
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	3 704	6 855
Income tax debt		0
Interest liabilities		
Other adjusting entries for liabilities	3 196	7 171
Total	**25 580**	**75 230**

27. FINANCIAL RISK MANAGEMENT

The Group's main sources of funding consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has some revolving credit limits. At the end of 2023, the cash and cash equivalents amounted to EUR 5.8 million (EUR 12.9 million 31 December 2022) and financial assets at fair value through profit or loss EUR 0.3 (0.3) million. The amount of credit limits at the end of 2023 was EUR 340 million, which all was in use.

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

Revolving Credit Facility

Lehto has a Revolving Credit Facility (RCF) agreement with OP Corporate Bank plc and Nordea Bank Plc, which was signed on 30 June 2022. The RCF amounts to EUR 13 million and is valid until 31 March 2024. At the end of the review period, EUR 3.4 million of the RCF was in use. Some of the assets pledged as collateral for the RCF belong to the bankrupt subsidiaries, and some to the continuing Lehto Group.

At the end of the review period, not all of the covenant or other terms of the RCF were met and the contract is about to expire on 31 March 2024. Debt collection and repayment will occur as part of the Company's restructuring proceedings.

Net liabilities	**2023**	**2022**
Interest-bearing liabilities	20 621	33 865
Cash and cash equivalents and interest-bearing receivables	-6 130	-13 236
Net liabilities without IFRS lease liabilities	**14 491**	**20 630**
Lease liabilities	59 123	77 847
Net liabilities	**73 614**	**98 477**
Equity, total, EUR 1,000	-12 382	66 571
Net gearing ratio	-594,5 %	147,9 %

Loan facility with the Tax Administration
During the financial year, Lehto made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 3.5 million. The repayment period under the payment arrangement was 12 months and the first instalment was paid in November 2023. The interest rate on the payment arrangement was 3.4%.

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

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

Sensitivity analysis for loans with floating rates	**2023**		**2022**	
Change, %	+1 %	-1 %	+1 %	-1 %
Impact on profit/loss after taxes				

Credit risk
The most significant credit risk for the Group consists of trade receivables and receivables from customers based on customer agreements. However, these do not involve significant credit risk accumulations. Apartments are not handed over to the customer until all trade receivables have been paid. However, credit losses totalling EUR 1.4 million have been recorded in the accounting period. The ageing analysis of accounts receivable and the solvency of the most significant customers are monitored at Group level and in group companies. Credit risk is also managed by granting customers only standard payment terms and customer-specific consideration, using preferential payment terms typical for the industry and reselling the credit risk to financial institutions. The payment terms used in the Group currently vary from 7 to 45 days, of which the most typical payment term is 30 days. In addition, for individual projects, a longer payment term can be agreed upon, where the payment will be made in one instalment upon handover of the project. Furthermore, for individual projects a longer payment term can be agreed on, where the payment is made as a one-off payment at the end of the project.

Liquidity risk
The continuity of the Company's operations involves significant uncertainties. The Company will not be able to continue to operate unless it sells assets or acquires new financing and starts new cash-flow generating business. Due to these factors, there are significant grounds for doubting that the Company will be able to continue to operate and make payments over the next 12 months. The future development of the company's cash assets will be influenced particularly by asset sales income, cash income and expenses related to new business and the schedule for the start-up of operations, financing acquired for new business and effects of the decisions made in the corporate restructuring proceedings of the parent company.

Analysis of debt maturity

For the sake of clarity, in the table for 2023 below, the debt maturity analysis is presented separately for companies that went bankrupt after the financial year and for other companies.

31 Dec 2023	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	8 711			8 711
of which the companies that went bankrupt after the financial year	*5 220*			*5 220*
of which other companies	*3 490*			*3 490*
Convertible bonds	21 600			21 600
of which other companies	*21 600*			*21 600*
Lease liabilities	7 314	9 263	92 984	109 562
of which the companies that went bankrupt after the financial year	*6 803*	*8 721*	*92 829*	*108 353*
of which other companies	*512*	*542*	*155*	*1 209*
Trade payables and other non-interest-bearing liabilities	15 621	110		15 731
of which the companies that went bankrupt after the financial year	*4 903*	*110*		*5 013*
of which other companies	*10 719*			*10 719*
Total	**53 246**	**9 373**	**92 984**	**155 604**
of which the companies that went bankrupt after the financial year	*16 925*	*8 831*	*92 829*	*118 585*
of which other companies	*36 321*	*542*	*155*	*37 018*

31 Dec 2022	Less than 1 year	1–5 years	More than 5 years	Total
Financial liabilities	22 376	9		22 384
Convertible bonds	900	21 150		22 050
Lease liabilities	8 380	14 303	115 995	138 678
Trade payables and other non-interest-bearing liabilities	40 172	206		40 378
Total	**71 828**	**35 668**	**115 995**	**223 491**

The majority of Lehto's lease liabilities at the end of the financial period were related to leases of plots for developer-contracted housing projects under construction. These obligations have been removed from Lehto's consolidated balance sheet due to the bankruptcies of subsidiaries after the end of the financial period. The IFRS 16 liabilities taken off the balance sheet due to the bankruptcies total EUR 58 million.

Leases include items from companies that went bankrupt after the end of the financial year. The specifications of these are presented in the note "32. Events after the financial year".

Group as lessee

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

Right-of-use assets and lease liabilities 2023	Inventories	Property, plant and equipment	Lease liabilities
1 Jan. 2023	70 897	3 492	77 847
Increases	455	162	207
Decreases	-13 927	-1 728	-17 523
Depreciation / instalments	-1 266	-736	-1 408
31 Dec. 2023	**56 159**	**1 190**	**59 123**

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

Interest expenses related to lease liabilities in 2023 amounted to EUR 2,026 thousand (EUR 2,154 thousand in 2022). Interest expenses on lease liabilities are presented in financial expenses in the notes under "Financial income and expenses".

EUR 576 (1,102) thousand was recognised as expenses from low-value and short leases during the financial year. In addition to low-value IT machinery and equipment rents, these include short-term (maximum 12 months) rents for tool, machine and site facilities related to the construction industry. The total cash flow leases amounted to EUR 2,657 (2,467) thousand and from land leases to EUR 3,755 (3,957) thousand.

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

29. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2023	2022
Loans from financial institutions	3 427	13 042
Debts on shares in unsold housing company shares	2 241	9 162
Total	**5 667**	**22 204**

Guarantees	2023	2022
Company mortgages	135 200	135 200
Real-estate mortgages	102 760	213 540
Pledges	3 742	13 285
Absolute guarantees		214
Total	**241 702**	**362 239**

Contract guarantees	2023	2022
Production guarantees	2 957	27 223
Warranty guarantees	13 695	15 588
RS guarantees	14 030	23 122
RS guarantees	6	2 360
Rent guarantees	150	
Total	**30 838**	**68 293**

Liability to adjust value added tax (VAT) on property investments	2023	2022
Liability to adjust VAT	862	1 540

The pledges are inventory items and other financing assets pledged as collateral for financial institution loans and loans for housing companies under construction. Pledges are presented at carrying amount.

The liabilities of bankrupt subsidiaries from contract guarantees amount to EUR 27.7 million, for which the parent company Lehto Group Plc has given a counter guarantee. It is possible that, as a result of the subsidiaries' bankruptcies, claims will be made against the Lehto Group that the group will not be able to meet.

30. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships on 31 Dec.2023

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 Puu Oy	Finland	100 %	100 %
Lehto Components Oy	Finland	100 %	100 %
Insinööritoimisto Mäkeläinen Oy	Finland	100 %	100 %
Lehto Korjausrakentaminen Oy	Finland	100 %	100 %
Katajanokka Holding Oy	Finland	100 %	100 %
Kiinteistö Oy Ylivieskan Arvokiinteistö	Finland	80 %	80 %
Kiinteistö Oy Oulun Eteläkeskus	Finland	100 %	100 %
Lehto 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 their families and entities on which related parties, or their family members, have influence through ownership or management. Related parties also include associated companies and joint ventures. The Group didn't have any transactions with associated companies and joint ventures.

Transactions with related parties

	Sales 2023	Sales 2022	Purchases 2023	Purchases 2022
Key personnel and their controlled entities	438	5 151	3 682	9 067
Total	438	5 151	3 682	9 067

	Receivables 31 Dec. 2023	Receivables 31 Dec. 2022	Liabilities 31 Dec. 2023	Liabilities 31 Dec. 2022
Key personnel and their controlled entities	624	730	292	154
Total	624	730	292	154

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

Purchases from related parties mainly consist of the rental of work machines and equipment from Lehto Invest Oy, a company controlled by the member of the Board Hannu Lehto. These purchases amounted to EUR 2.0 million in 2023. In addition, Lehto purchases building technology design and maintenance services from Elvak Oy, which is a company controlled by the member of the Board Hannu Lehto's son. The amount of these purchases was EUR 1.6 million in 2023.

Management salaries and remuneration	2023	2022
Chief Executive Officer, CEO		
Juuso Hietanen	398	398
Other management team	1 070	997
Share incentives	2	
Post-employment benefits, statutory pension contribution paid by the employer	260	290
Total	**1 731**	**1 928**

Members of the Board of Directors	2023	2022
Eero Sihvonen, chairman (as member May 2 - Dec 5, 2022, as chairman since Dec 5, 2022)	102	37
Hannu Lehto, (as chairman until Dec 5, 2022, as member since Dec 5, 2022)	43	91
Jani Nokkanen	48	46
Anne Korkiakoski (until July 11, 2023)	26	48
Helena Säteri (until March 30, 2023)	10	46
Raimo Lehtiö (until May 2, 2022)		12
Seppo Laine (until May 2, 2022)		13
Total	**229**	**294**

32. EVENTS AFTER THE FINANCIAL YEAR

After the review period, on February 8, 2024 the operative subsidiaries of Lehto Group Plc, Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, have been declared bankrupt. Those companies cover practically Lehto's whole housing construction and business premises construction businesses and thus they make up most of the net sales of Lehto Group. Also, On February 16, 2024 Lehto Group Plc has been ordered to corporate restructuring. As part of the corporate restructuring proceedings Lehto plans to divest its whole construction business and any holdings related thereto and reviews options to expand to new business areas and acquire new business.

Effect of subsidiaries declared to bankrupt on the Group financial position Dec 31, 2023	Group	The impact of subsidiaries declared to bankrupt	Group without the subsidiaries declared to bankrupt
Intangible and tangible assets	7 686	10	7 676
Investments in associated companies	780		780
Other financial assets	971	14	957
Receivables	2 463	2 385	78
Inventories	73 591	71 858	1 734
Trade and other receivables	12 107	11 059	1 048
Cash and cash equivalents	6 130	15	6 116
Assets, total	**103 729**	**85 340**	**18 388**
Non-current provisions	7 745	7 735	10
Non-current lease liabilities	53 585	52 905	681
Other non-current liabilities	110	110	
Current provisions	2 931	2 558	373
Current financial liabilities	20 621	5 121	15 501
Current lease liabilities	5 538	5 043	494
Liabilities to customers for constructing contracts (advances received)	1 657	1 496	161
Trade and other payables	23 922	19 627	4 295
Liabilities, total	**116 110**	**94 595**	**21 515**
Net assets and liabilities	***-12 382***	***-9 255***	***-3 127***
Impact of group eliminations		**9 255**	**-9 255**
Groups' net assets and liabilities at the end of financial year			**-12 382**

Also, On February 16, 2024 Lehto Group Plc has been ordered to corporate restructuring. As part of the corporate restructuring proceedings Lehto plans to divest its whole construction business and any holdings related thereto and reviews options to expand to new business areas and acquire new business.

After the review period, on 19 March 2023, Lehto sold the entire share capital of its subsidiary Insinööritoimisto Mäkeläinen Oy. Insinööritoimisto Mäkeläinen Oy was a 100% owned subsidiary of Lehto, which is focused on structural design and employs around 40 employees in Kajaani, Kempele and Vantaa. The buyers are the management of Insinööritoimisto Mäkeläinen Oy, Elvak Oy and Lehto Invest Oy. Lehto considers that this is a related party transaction, because Lehto's board member Hannu Lehto has control over Lehto Invest Oy and Elvak Oy is a company managed and partly owned by Hannu Lehto's son. An external Appraiser has estimated that the purchase price corresponds to the fair value of the target. The enterprise value (EV) defined in the transaction is approximately EUR 0.5 million, to which the assets transferred in the Transaction are added (EUR 0.1 million), and from which the liabilities transferred in the transaction (EUR 0.6 million) are subtracted. The transaction has no significant impact on Lehto Group's turnover, operating profit or financial position.

INCOME STATEMENT FOR PARENT COMPANY, FAS

1 000 EUR

	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Net sales	6 305	8 580
Other operating income	255	235
Personnel expenses		
Salaries and fees	-2 492	-3 468
Personnel expenses		
Pension costs	-394	-541
Indirect employee costs	-68	-91
Depreciation according to plan	-399	-803
Other operating expenses	-7 118	-5 445
Operating result	**-3 910**	**-1 533**
Financial income and expenses		
Income from holdings in Group companies	10 010	4 690
Interest and other financial income		
From Group companies	1 173	1 123
From others	19	3
Amortisation from other investments held as non-current assets	-67 674	-21 040
Interest and other financial expenses		
To Group companies	-77	-3
To others	-2 894	-2 787
Financial income and expenses, total	*-59 442*	*-18 014*
Result before appropriations and taxes	**-63 352**	**-19 547**
Result before taxes	**-63 352**	**-19 547**
Result for the financial year	**-63 352**	**-19 547**

BALANCE SHEET FOR PARENT COMPANY, FAS

	31 Dec 2023	31 Dec 2022
		1 000 EUR
ASSETS		
Non-current assets		
Intangible assets	414	811
Machinery and equipment	2	3
Holdings in Group companies	102	48 263
Investments in associated companies	780	
Other shares and investments	957	957
Non-current assets, total	**2 255**	**50 033**
Current assets		
Inventories	83	83
Non-current receivables		
Receivables from Group companies	389	3 100
Loan receivables	56	56
Other receivables	2	
Current receivables		
Trade receivables	8	
Receivables from Group companies	13 549	44 777
Other receivables	216	2 227
Adjusting entries for assets	370	394
Financial securities	328	314
Cash and cash equivalents	5 582	11 993
Current assets, total	**20 584**	**62 944**
ASSETS TOTAL	**22 839**	**112 977**
EQUITY AND LIABILITIES		
Equity		
Share capital	100	100
SVOP - Reserve for invested unrestricted equity	91 655	91 655
Retained earnings	-43 981	-24 406
Result for the financial year	-63 352	-19 547
Equity, total	**-15 578**	**47 803**
Liabilities		
Non-current liabilities		
Convertible bonds		15 000
Non-current liabilities, total		***15 000***
Current liabilities		
Loans from financial institutions	3 420	13 000
Convertible bonds	15 000	
Trade payables	454	285
Liabilities to Group companies	17 558	35 746
Other liabilities	113	285
Adjusting entries for liabilities	1 871	859
Current liabilities, total	***38 417***	***50 174***
Liabilities, total	**38 417**	**65 174**
EQUITY AND LIABILITIES TOTAL	**22 839**	**112 977**

CASH FLOW STATEMENT FOR THE PARENT COMPANY, FAS

1 000 EUR

	31 Dec 2023	31 Dec 2022
Cash flow from operating activities		
Result for the financial year	-63 352	-19 547
Adjustments:		
Depreciation according to plan and impairment	399	803
Gain on sale of non-current assets	408	1 148
Non-cash items		19 838
Financial income and expenses	59 442	-3 026
Change in trade and other receivables	1 928	-2 367
Change in trade and other payables	64	-162
Interest paid and other financial expenses	-1 944	-2 520
Interests received from operations	1 190	1 185
Dividends received from operations		4 677
Net cash from operating activities	**-1 867**	**29**
Cash flow from investments		
Investments in intangible and tangible assets	0	-97
Proceeds from sale of intangible and tangible assets	-408	54
Investments in other investments	-34 300	-200
Proceeds from sale of investments	107	31 539
Repayment of loan receivables		381
Loans granted	-404	-3 000
Purchases of associated companies	-780	
Net cash from investments	**-35 786**	**28 676**
Cash flow from financing		
Loans drawn	3 680	28 000
Loans repaid	-11 580	-25 220
Change in Group financing	39 185	-49 500
Repurchase of own shares	-28	
Net cash used in financing activities	**31 256**	**-46 720**
Change in cash and cash equivalents (+/-)	**-6 396**	**-18 015**
Cash and cash equivalents at the beginning of the financial year	12 306	30 321
Cash and cash equivalents at the end of the financial year	**5 910**	**12 306**

NOTES TO THE FINANCIAL STATEMENTS OFR THE PARENT COMPANY

Continuity of operations

These financial statements have not been prepared in accordance with the continuity of operations principle. After the end of the financial period on February 8, 2024, Lehto Group Plc's operational subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy were declared bankrupt, which is also taken into account in the valuation of the balance sheet items in the financial statement information. Lehto Asunnot Oy, Lehto Tilat Oy, and Lehto Korjausrakentaminen Oy cover practically Lehto's whole housing construction and business premises construction businesses and thus they make up most of the net sales of Lehto Group. In addition, on February 16, 2024, Lehto Group Plc was ruled to corporate restructuring by the District Court's decision. As part of the corporate restructuring proceedings Lehto plans to divest its whole construction business and any holdings related thereto and reviews options to expand to new business areas and acquire new business.

The covenant terms of the company's key RCF financing agreement were not met on the closing date. The responsibilities and obligations related to this financing agreement are taken into account in the Company's restructuring programme. The Company has also issued convertible bonds of EUR 15.0 million, which are convertible into new and/or existing shares in Lehto. The Company has not been able to comply with all of the terms and conditions of the convertible bond, which is why the convertible bond is classified as current liabilities. Any changes to the convertible bonds will be dealt with as part of the Company's restructuring proceedings.

The continuity of the Company's operations involves significant uncertainties. The Company will not be able to continue to operate unless it sells assets or acquires new financing and starts new cash-flow generating business. Due to these factors, there are significant grounds for doubting that the Company will be able to continue to operate and make payments over the next 12 months. The future development of the company's cash assets will be influenced particularly by asset sales income, cash income and expenses related to new business and the schedule for the start-up of operations, financing acquired for new business and effects of the decisions made in the corporate restructuring proceedings of the parent company.

Measurement and timing principles

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

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

Investments in non-current assets are valued at the purchase price or the lower income likely to accrue in the future. A write-down of 60.6 million was recorded in subsidiary shares during the accounting period which is mainly due the fact that after the review period, on February 8, 2024 the operative subsidiaries of Lehto Group Plc, Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, have been declared bankrupt. The valuation of the remaining subsidiary shares' financial statements on 31 December 2022 is based on long-term forecasts and calculations prepared at the group level.

The valuation of receivables from the group company is based on an estimate of the amount of money that can be collected from the subsidiary.

The parent company's corporate restructuring proceedings and restructuring program may have a negative effect on the subsequent valuation of the assets shown in the parent company's balance sheet.

Bases of depreciation

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

No changes in the bases of depreciation.

Net sales by business area	**2023**	**2022**
Group internal service charges	6 228	8 405
Other net sales, internal	55	1
Other net sales, external	21	174
Total	**6 305**	**8 580**

Fees paid to auditor:	**2023**	**2022**
Statutory auditing	80	95
Certificates and statements	15	1
Tax services	0	1
Other services	11	0
Total	*105*	*100*

Financial income and expenses	**2023**	**2022**
Dividend income from Group companies	10 010	4 690
Interest income from Group companies	1 173	1 123
Interest income from others	19	3
Amortisation from other investments held as non-current assets	-67 674	-21 040
Interest costs on intra-Group liabilities	-77	-3
Interest costs to others	-2 387	-1 406
Other financial expenses	-507	-1 380
Total	**-59 442**	**-18 014**

Taxes	**2023**	**2022**
Current taxes	0	0
Total	**0**	**0**

Intangible rights	**2023**	**2022**
Acquisition cost at 1 Jan.	1 272	1 265
Increases	0	7
Acquisition cost at 31 Dec.	**1 272**	**1 272**
Accumulated depreciation at 1 Jan.	-1 263	-1 204
Depreciation and amortisation	-6	-58
Accumulated depreciation at 31 Dec.	**-1 269**	**-1 263**
Book value at 1 Jan.	10	61
Book value at 31 Dec.	**4**	**10**

Other long-term expenditure	**2023**	**2022**
Acquisition cost at 1 Jan.	3 438	3 223
Increases	107	215
Acquisition cost at 31 Dec.	**3 545**	**3 438**
Accumulated depreciation at 1 Jan.	-2 743	-2 005
Depreciation and amortisation	-391	-738
Accumulated depreciation at 31 Dec.	**-3 134**	**-2 743**
Book value at 1 Jan.	695	1 218
Book value at 31 Dec.	**411**	**695**

Advanced payments for intangible assets	**2023**	**2022**
Acquisition cost at 1 Jan.	107	0
Increases	0	231
Decreases	-107	-124
Acquisition cost at 31 Dec.	**0**	**107**
Book value at 1 Jan.	107	231
Book value at 31 Dec.	**0**	**107**

Machinery and equipment	2023	2022
Acquisition cost at 1 Jan.	1 265	1 265
Acquisition cost at 31 Dec.	**1 265**	**1 265**
Accumulated depreciation at 1 Jan.	-1 263	-1 256
Depreciation and amortisation	-2	-7
Accumulated depreciation at 31 Dec.	**-1 265**	**-1 263**
Book value at 1 Jan.	2	9
Book value at 31 Dec.	**0**	**2**

Other tangible assets	2023	2022
Acquisition cost at 1 Jan.	1	1
Acquisition cost at 31 Dec.	**1**	**1**
Accumulated amortisation at 31 Dec.	**0**	**0**
Book value at 1 Jan.	1	1
Book value at 31 Dec.	**1**	**1**

Investments	2023	2022
Acquisition cost at 1 Jan.	86 498	84 501
Increases	18 071	34 738
Decreases	-878	-32 741
Acquisition cost at 31 Dec.	**103 692**	**86 498**
Accumulated amortisation at 1 Jan.	-37 279	-17 441
Amortisation	-64 574	-19 838
Accumulated amortisation at 31 Dec.	**-101 853**	**-37 279**
Book value at 1 Jan.	49 219	67 060
Book value at 31 Dec.	**1 839**	**49 219**

Non-current receivables from Group companies	2023	2022
Loan receivables	389	3 100
Total	**389**	**3 100**

Current receivables from Group companies	2023	2022
Trade receivables	107	8
Loan receivables	39	24
Other receivables	407	397
Group limit	12 996	44 348
Total	**13 549**	**44 777**

Essential items included in adjusting entries for assets	2023	2022
Other adjusting entries for assets	0	0
Other adjusting entries for assets	370	394
Total	**370**	**394**

	2023	2022
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	**100**	**100**

SVOP - Reserve for invested unrestricted equity	91 655	91 655
Invested non-restricted equity reserve at 31 Dec.	**91 655**	**91 655**

Retained earnings at 1 Jan.	-43 953	-24 406
Purchases of own shares	-28	0
Retained earnings from previous year	-63 352	-19 547
Retained earnings at 31 Dec.	**-107 333**	**-43 953**

Result for the financial year	**-63 352**	**-19 547**

Equity, total	**-15 578**	**47 803**

Statement of distributable funds	**2023**	**2022**
Invested non-restricted equity reserve	91 655	91 655
Retained earnings	-43 981	-24 406
Result for the financial year	-63 352	-19 547
Total	**-15 678**	**47 703**

The parent company's equity has become negative for which the corresponding notice is filed to the Trade Register.

Liabilities to Group companies	**2023**	**2022**
Trade payables	189	119
Other payables	8 210	34 300
Group limit	9 159	1 327
Total	**17 558**	**35 746**

Essential items included in adjusting entries for liabilities	**2023**	**2022**
Holiday pay debt with related costs	357	337
Non-wage labour cost debt	130	163
Tax debt	0	0
Interest debt	1 385	358
Total	**1 871**	**859**

Guarantees and contingent liabilities

Loans covered by pledges on assets	**2023**	**2022**
Loans from financial institutions	3 420	13 000
Total	**3 420**	**13 000**

Guarantees	2023	2022
Corporate mortgages	33 800	33 800
Real-estate mortgages	33 800	33 800
Pledges	102	46 816
Production guarantees	150	374
Absolute guarantees	0	214
Total	**67 852**	**115 005**

Amount of credit limits		
Credit limits available	3 421	13 001
Credit limits in use	3 421	13 001
Credit limits outstanding	**0**	**0**
Guarantee limits available	87 179	88 166
Guarantee limits in use	31 613	63 224
Guarantee limits outstanding	**55 567**	**24 942**

Guarantees given on behalf of other Group companies		
Pledges	0	451
Guarantees given and other commitments	33 150	83 756
Total	**33 150**	**84 207**

Leasing agreements not included in balance sheet		
Expiring in 12 months	34	38
Expiring in more than 12 months	51	42
Total	**85**	**80**

Lease liabilities		
Construction leases, expiring in 12 months	696	751
Construction leases, expiring in more than 12 months	1 665	2 287
Total	**2 362**	**3 037**

Other liabilities

After the review period, on February 8, 2024 the operative subsidiaries of Lehto Group Plc, Lehto Asunnot Oy, Lehto Tilat Oy and Lehto Korjausrakentaminen Oy, have been declared bankrupt. It is possible that as a result of subsidiaries' bankruptcies, claims are made against the parent company that the parent company is unable to meet.

Average number of company personnel at the end of the financial year	2023	2022
Salaried employees	35	45
Total	**35**	**45**

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

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

The parent company doesn’t have distributable funds because its equity is EUR -15 577 786, of which the result for the financial year is EUR -63,352,210.

The Board of Directors will propose to the Annual General Meeting that no dividends be paid for the 1 January–31 December 2023 financial year.

Signatures to the Annual Report and Financial Statements

Vantaa, 29 April 2024

Eero Sihvonen, Chairman of the Board of Directors

Hannu Lehto, Member of the Board of Directors

Jani Nokkanen, Member of the Board of Directors

Juuso Hietanen, CEO

The Auditor’s Note

A report on the audit performed has been issued today.

Oulu, 29 April 2024

KPMG Oy Ab
Audit firm

GROUP KEY FIGURES

	2023	2022	2021[1)]	2020[2)]	2019[3)]
Net sales, EUR million	171,8	344,8	404,1	544,7	667,7
Net sales, change from the previous year %	-50,2 %	-14,7 %	-21,8 %	-18,2 %	-7,5 %
Operating result, EUR million	-72,8	-42,2	-28,3	0,1	-41,8
Operating result, as % of net sales	-42,4 %	-12,2 %	-7,0 %	0,0 %	-6,3 %
Result for the financial year from continuing operations, EUR million	-79,0	-58,8	-29,9	-5,1	-35,7
Result for the financial year from discontinued operations, EUR million	-0,1	32,1	-2,7	-3,1	-
Result for the financial year, EUR million	-79,0	-26,7	-32,6	-8,2	-35,7
Result for the financial year, as % of net sales	-46,0 %	-7,7 %	-8,1 %	-1,5 %	-5,4 %
Return on equity (ROE), %	-291,7 %	-33,8 %	-30,4 %	-7,0 %	-26,0 %
Return on investments (ROI), %	-59,2 %	-20,8 %	-12,1 %	0,1 %	-14,3 %
Equity ratio, %	-12,1 %	27,0 %	27,2 %	38,7 %	29,6 %
Net gearing ratio, %	-594,5 %	147,9 %	113,8 %	7,0 %	115,9 %
Order backlog, EUR million	0,0	205,9	444,2	426,3	481,8
Gross expenditure on assets, EUR million	0,1	0,8	1,2	2,0	7,7
Personnel during the year, average	483	860	1 043	1 115	1 454
Personnel at Dec 31	384	664	1 042	1 034	1 274
Equity / share	-0,14	0,76	1,04	1,42	1,59
Earnings per share, issued-adjusted, EUR, basic	-0,91	-0,31	-0,37	-0,12	-0,51
Earnings per share, issued-adjusted, EUR, diluted	-0,91	-0,31	-0,37	-0,12	-0,51
Average number of shares during the year, issued-adjusted, basic	87 257 649	87 276 343	87 142 297	71 012 014	70 597 352
Average number of shares during the year, issued-adjusted, diluted	87 332 931	87 433 988	87 447 100	71 330 955	70 752 453
Number of shares, issue-adjusted, at the end of the year	87 135 986	87 311 287	87 159 445	87 089 901	70 612 735
Market value of share at Dec 31, EUR million	1,6	15,0	75,0	117,6	137,0
Share turnover, issue-adjusted, shares	61 872 140	45 210 912	68 750 986	45 969 542	54 836 449
Share turnover out of average number of shares, %	70,9 %	51,8 %	78,9 %	64,7 %	77,7 %
Share prices, issued-adjusted, EUR					
Highest price, EUR	0,33	0,94	2,31	2,17	4,40
Lowest price, EUR	0,01	0,17	0,72	0,98	1,22
Average price, EUR	0,09	0,51	1,35	1,37	2,20
Price at Dec 31, EUR	0,02	0,17	0,86	1,35	1,94
Dividend / share, issue-adjusted, EUR [2)]	-	-	-	-	-
Issue-adjusted dividend payout ratio, % [2)]	-	-	-	-	-
Effective dividend yield % [2)]	-	-	-	-	-
Price / Earnings	-0,02	-0,56	-2,30	-11,70	-3,83

1) Share-based key figures are issue-adjusted due share issue in 2020

2) Year 2023 dividend proposal

DEFINITIONS OF KEY FIGURES

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

Alternative performance measures by ESMA

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

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

SHARES AND SHAREHOLDERS

At balance sheet date, the number of shares is 87,339,410. Outstanding number of shares is 87,135,986 and the company held 203,424 treasury shares. The share capital is EUR 100,000. The company has one share class and all shares are of the same class. The company's shares have no par value, and the Articles of Association do not specify the minimum or maximum value of shares or share capital. Each share entitles its holder to one vote and to an equal amount of dividend.

SHAREHOLDERS 31 DECEMBER 2023	**Number of shares**	**%**
Lehto Invest Oy	33,914,760	38.83%
J & K Hämäläinen Oy	1,997,909	2.29%
Kinnunen Mikko	1,326,454	1.52%
Mevita Invest Oy	1,286,867	1.47%
Nordea Henkivakuutus Suomi Oy	962,368	1.10%
Proup Oy	850,000	0.97%
OP-Henkivakuutus Oy	660,463	0.76%
Simula Aarne	607,793	0.70%
Lindsay von Julin & Co Ab	600,000	0.69%
Wetterström Carl	600,000	0.69%
10 LARGEST SHAREHOLDERS	**42,806,614**	**49.01%**
Nominee-registered	1,972,103	2.2%
Other shareholders	42,560,693	48.73%
TOTAL	**87,339,410**	**100.00%**

SHAREHOLDING BREAKDOWN	**Number of shares**	**%**	**Number of shareholders**	**%**
1 - 100	167,297	0.2%	3,743	26.8%
101 – 1,000	2,647,693	3.0%	6,101	43.7%
1,001 – 10,000	11,730,688	13.4%	3,393	24.3%
10,001 – 100,000	18,819,634	21.6%	654	4.7%
100,001 – 1,000,000	15,448,108	17.7%	54	0.4%
over 1,000000	38,525,990	44.1%	4	0.0%
TOTAL	**87,339,410**	100.0%	**13,949**	100.0%
where of Nominee-registered	1,972,103	2.3%	10	7.0%

SHAREHOLDINGS BY SECTOR	**Number of shares**	**%**	**Number of shareholders**	**%**
Companies	44,960,024	51.5%	474	3.4%
Financial and insurance institutions	2,106,752	2.4%	12	0.1%
Public sector organizations	27,410	0.0%	2	0.0%
Households	38,241,457	43.8%	13,409	96.1%
Non-profit organizations	25,650	0.0%	11	0.1%
Foreign countries	1,978,117	2.3%	31	0.2%
TOTAL	**87,339,410**	100.0%	**13,949**	100.0%
where of Nominee-registered	1,972,103	2.3%	10	0.1%

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

Auditor's Report

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 2023. 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 material 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 IFRS Accounting Standards as adopted by the EU

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

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

Basis for Opinion

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

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

responsibilities in accordance with these requirements.

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

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

Emphasis of matter – preparation of financial statements on a non-going concern basis

We draw attention to the accounting policies that describe the preparation of the consolidated and parent company financial statements on a non-going concern basis. After the end of the financial year on 8 February 2024, Lehto Group Plc's operational subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy ja Lehto Korjausrakentaminen Oy were declared bankrupt. The bankrupt companies cover practically all of Lehto's housing and business premises construction businesses and thus account for the majority of the Lehto Group's net sales. The corporate restructuring proceedings of Lehto Group Plc were initiated based on the decision of the District Court on February 2024.

The covenant terms of the company's key RCF financing agreement were not met on the balance sheet date. The liabilities and obligations related to this financing agreement will be taken into account in the company's restructuring programme. In addition, the company has not been able to comply with all of the terms and conditions set out in the convertible bond. Any amendments to the convertible bond will also be dealt with as part of the company's restructuring proceedings.

The company will not be able to continue operations without the sale of assets, new financing or new cash-generating business. These factors cast significant doubt on the company's ability to continue as a going concern and to meet its payments over the next 12 months. The adequacy of cash resources will be affected, in particular, by the proceeds from the sale of assets, the cash receipts and payments associated with new business and the timetable for starting up the business, the financing to be obtained for the new business and the impact of the decisions taken in the parent company's restructuring proceedings.

The parent company's equity has turned negative and the corresponding notice to the Trade Register has been filed on 15 March 2024, which has been registered on 19 April 2024.

The audit opinion has not been qualified due to aforementioned issues.

Materiality

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

Key Audit Matters

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

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

Presentation in the consolidated financial statements of the subsidiaries declared bankrupt after the end of the financial year and measurement of these assets

(Refer to Accounting principles for the consolidated financial statements and note 32 to the consolidated financial statements)

The key audit matter

— The Group's operational subsidiaries Lehto Asunnot Oy, Lehto Tilat Oy ja Lehto Korjausrakentaminen Oy were declared bankrupt after the end of the financial year on 8 February 2024.

— The income statement and balance sheet items of the bankrupt subsidiaries have been incorporated into the consolidated financial statements at 31 December 2023. As a result of the bankruptcy, the Group lost control over the companies..

— The assets of the bankrupt companies are measured at no more than the total liabilities of the companies, considering also the impacts of the impairment due to the loss of receivables realisable by the Group in bankruptcy. Group goodwill (EUR 4.6 million) was fully allocated to the business of the bankrupt companies and has therefore been fully written down as an impairment loss.

How the matter was addressed in the audit

— We assessed the presentation of bankrupt companies in the consolidated financial statements against the standards for the preparation of financial statements.

— We considered the measurement of the assets of the companies in bankruptcy and the appropriateness of the impairment losses.

Subsidiary shares and receivables from group companies in the parent company's balance sheet
(Refer to parent company balance sheet, accounting principles for the financial statements and notes)

The key audit matter	How the matter was addressed in the audit
— The cost of the subsidiary shares on the parent company's balance sheet (EUR 64.5 million) and the receivables from the bankrupt companies have been fully expensed. — The receivables from the non-bankrupt subsidiaries amount to EUR 13.9 million. — The parent company's corporate restructuring proceedings and the restructuring programme may have a negative impact on the subsequent measurement of the assets shown in the parent company's balance sheet.	— We assessed the measurement bases for the parent company's investments in subsidiaries and the receivables from group companies, the impairment losses recognised, and their presentation in the financial statements.

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

The Board of Directors and the CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards 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 11 years. Lehto Group Plc became a public interest entity on 28 April 2016.

Other Information

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

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

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

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

Oulu, 29 April 2024

KPMG Oy Ab

PEKKA ALATALO
Authorised Public Accountant, KHT

CORPORATE GOVERNANCE 2023

Contents

1. Introduction

Corporate governance at Lehto Group Plc (hereinafter "Lehto Group" or "Company") is based on the laws in force and the Company's Articles of Association. Lehto Group follows the rules and regulations of Nasdaq Helsinki Ltd (hereinafter "Nasdaq Helsinki" or the "Helsinki Stock Exchange") and the Finnish Corporate Governance Code 2020 (hereinafter "Corporate Governance Code") issued by the Securities Market Association. The Corporate Governance Code is available in its entirety on the website of the Securities Market Association at www.cgfinland.fi.

On 26 March 2024, the Company's Board of Directors approved this Corporate Governance Statement (hereinafter "CG Statement"), which was drawn up separately from the report by the Board of Directors. This CG Statement is published on Lehto Group's website at www.lehto.fi/en/investors/corporate-governance/.

2. Descriptions concerning corporate governance

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

General Meeting of Shareholders

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

The Annual General Meeting is held annually on the date determined by the Board of Directors, within six (6) months from the termination of the financial year. In accordance with the Limited Liability Companies Act and the Articles of Association, the Annual General Meeting decides on matters that fall within its competence, such as adoption of the financial statements, the use of the profit shown on the balance sheet, and the appointment of the members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting also decides on the discharge of the Members of the Board of Directors and the Chief Executive Officer from liability. An Extraordinary General Meeting shall be held if the Board of Directors considers it necessary or if the Company's auditor or shareholders whose shares represent at least one tenth of all shares issued by the Company so demand in writing in order for a given matter to be dealt with.

In accordance with the Company's Articles of Association, a written notice of a General Meeting of Shareholders shall be given to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the shareholders' meeting, however, no later than nine (9) days prior to the record date of the General Meeting of Shareholders. A notice of a General Meeting of Shareholders shall be given by publishing it on the Company's website or in some other verifiable written form.

Board of Directors

The General Meeting of Shareholders elects the members of the Board of Directors. By virtue of the Company's Articles of Association, the Company has a Board of Directors which consists of three to eight (3–8) ordinary members. The Board members' term of office shall expire at the end of the next Annual General Meeting following their election.

Composition and operations of the Board of Directors

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

The Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations and is responsible for the appropriate arrangement of the control of the Company's accounts and finances. The Board of Directors, among its other duties, controls and supervises the Company's operative management, appoints, and discharges the CEO, determines the duties and conditions of employment of the CEO, approves the strategic objectives and the principles of risk management for the Company and its businesses and ensures the proper operation of the management system. Furthermore, the Board of Directors shall prepare together with the Shareholders' Nomination Committee a Remuneration Policy of the Company and presents it to the Annual General Meeting for discussion as well as prepares and presents the Remuneration Report for the Annual General Meeting. The Board of Directors also ensures that the Company has defined the operating principles for internal control and that the Company monitors the functioning of the internal control. The Board of Directors approves the policies and guidelines for internal control, risk management and corporate governance, as well as the Company's information dissemination policy. Based on the Company's strategy, the Board of Directors approves the action plan and budget and supervises their implementation. Furthermore, the Board of Directors annually approves the total amount and priorities of investments in the Company's business operations and decides on major and strategically important investments, acquisitions and divestments. The Board of Directors confirms the Company's ethical values and working methods and monitors their implementation. The Board of Directors also defines the Company's dividend policy on the basis of which it submits a dividend proposal to the Annual General Meeting for consideration. The Board of Directors or a member of the Board of Directors shall not comply with a decision of the General Meeting of Shareholders or the Board of Directors where it is invalid owing to being contrary to the Limited Liability Companies Act or the Company's Articles of Association.

The Company aims to ensure that its Board of Directors has, as a whole, and taking into account its duties, sufficient and versatile expertise and experience. In the preparation of the proposal of the Shareholders' Nomination Committee for the composition of the Board of Directors, particular attention shall be paid to the requirements set by the company's operations and development stage, and furthermore it shall be ensured that the Board of Directors and its members have sufficient expertise, know-how and experience to meet the requirements of the company. A person elected as a Board member must have the competence required by the position and the possibility to devote a sufficient amount of time to attending to the duties. The number of Board members and the composition of the board of directors shall be such that they enable the Board of Directors to see to its duties efficiently. For the evaluation of the diversity and composition of the Board of Directors, individuals who have been proposed as members shall, in confidence and as instructed by the Company, provide the information required to evaluate their competence and the amount of time they can devote to the task to the Shareholders' Nomination Committee.

The Board of Directors shall also evaluate the independence of its members. The majority of the Board members shall be independent of the Company. Furthermore, at least two (2) members who are independent of the Company shall also be independent of the significant shareholders of the Company. Board members' independence shall be evaluated on an annual basis.

In 2023, the following people have been members of the Board of Directors: Eero Sihvonen, Hannu Lehto, Anne Korkiakoski (until July 11, 2023), Helena Säteri (until March 30, 2023) and Jani Nokkanen.

Eero Sihvonen has acted as Chairman of the Board of Directors. During the financial year 2023, the Board of Directors had a total of 30 meetings. The average attendance rate of Board members was 99 per cent.

Basic information on Board members, their independence, remuneration, holdings and attendance in Board meetings is provided in the following tables.

MEMBERS OF THE BOARD OF DIRECTORS 2023					
Name	**Position**	**Year of birth**	**Education**	**Independence of the Company**	**Independence of significant shareholders**
Eero Sihvonen	Chairman of the Board of Directors	1957	M.Sc. (Econ.)	Yes	Yes
Hannu Lehto	Member of the Board of Directors	1963	Construction engineer	No	No
Jani Nokkanen	Member of the Board of Directors	1977	M.Sc. (Econ.)	Yes	Yes
Until 11 July 2023:					
Anne Korkiakoski	Member of the Board of Directors	1964	M.Sc. (Econ.)	Yes	Yes
Until the end of the Annual General Meeting on 30 March 2023:					
Helena Säteri	Member of the Board of Directors	1956	M.Sc. (Tech.)	Yes	Yes

BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES 31 DECEMBER 2023		
Name	**No. of shares held**	**Shareholding ratio**
Eero Sihvonen	144,667	0.17 %
Hannu Lehto	191,745	0.22 %
Lehto Invest Oy, a company controlled by the person	33,914,760	38.92 %
Jani Nokkanen	96,771	0.11 %
Board of Directors in total	**34,347,943**	**39.42 %**

REMUNERATION OF THE MEMBERS OF THE BOARD (INCLUDING REMUNERATION OF AUDIT COMMITTEE) AND ATTENDANCE IN MEETINGS 2023				
Name	**Remuneration, paid as shares, EUR**	**Remuneration, paid as cash, EUR**	**Board and Committee meeting remunerations, EUR**	**Attendance in Board meetings**
Eero Sihvonen	27,600	50,600	24,100	30/30
Hannu Lehto	13,800	16,675	12,450	30/30
Jani Nokkanen	13,800	22,425	11,300	29/30
Until 11 July 2023:				
Anne Korkiakoski	5,829	12,708	7,950	16/16
Until the end of the Annual General Meeting on 30 March 2023:				
Helena Säteri	-	6,900	3,000	7/7
Board of Directors in total	**55,200**	**96,600**	**50,850**	**99 %**

Presentation of Board members

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

Hannu Lehto has been a member of the Board of Directors since the Annual General Meeting on 2 May 2022 and the Chairman of the Board of Directors since the Annual General Meeting 2022 until 5 December 2022. He has strong experience both from being an entrepreneur in the construction branch and from executive duties in Lehto Group during separate phases. Hannu Lehto is the Company's founding shareholder and has been the Company's CEO from 2008 to 2013 and from 2014 to May 2021. Furthermore, he has previously been a member of the Board of Directors and the Chairman of the Board of Directors. Hannu Lehto has been involved in operation on the Company's and its subsidiaries for over 35 years. Lehto holds the degree of Construction engineer.

Jani Nokkanen has been a member of the Board of Directors since Annual General Meeting 2021. Currently Nokkanen is working as the CIO and Partner and member of the Board of Directors of NREP Oy where he has worked since 2008 in different key roles of development and financing. Before NREP he worked in management consulting and strategy related roles. Nokkanen holds the degree of M.Sc. (Econ.).

The memberships of the Board of Directors that ended

Anne Korkiakoski was member of the Board of Directors from 2019 until 11 July 2023.

Helena Säteri was member of the Board of Directors from 2020 until the end of Annual General Meeting 2023.

Statement on the implementation of the Board Diversity Policy 2023

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

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

The defined diversity goal is well implemented in the Board of Directors in terms of conditions other than gender. The Board comprises members that have knowledge in commerce, and technology. The Board is composed of members representing different ages and educational backgrounds who most have strong expertise in the real estate business. The Board members additionally have experience in the megatrends identified by the Company, in international duties, the capacity to develop the Company and assess the views of parties that use the Company's services. According to the self-assessment of the Board of Directors, the members of the Board have been able to devote a sufficient amount of time to Board duties to ensure the Board's operating conditions.

After Korkiakoski's resignation, the composition of Lehto's Board of Directors no longer met the recommendation no. 8 (Composition of the Board) regarding the diversity of the board, because after Korkiakoski's resignation, the Board no longer includes both genders. The reason for the deviation is that due to the challenging financial situation of the company and also the market, choosing a new board member would have been difficult. As a result, the company has temporarily deviated from recommendation 8 of the Corporate Governance Code, but the company's goal is that in the future both genders will be represented in the composition of the Board of Directors.

Board committees

The preparation of matters within the competence of the Board of Directors may be made more efficient by the establishment of Board committees allowing more extensive concentration on matters. The committees have no independent decision-making power, but they prepare issues which will be resolved by the Board. The Board of Directors remains responsible for the duties assigned to the Committee. The Committee shall regularly report on its work to the Board of Directors. The reports shall include at least a summary of the matters addressed and measures proposed by the Committee. The Annual General Meeting decides on the remuneration of the members of the Board committees.

Audit Committee

The Audit Committee is tasked with preparing matters relating to the Company's financial reporting and control. The key duties and operating principles of the Committee are described below.

The main duties of the Audit Committee are:

- to monitor the financial statements reporting process
- to supervise the financial reporting process
- to monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- to review the description of the main features of the Company's internal control and risk management systems related to the financial reporting process
- to monitor the statutory audit of the financial statements and consolidated financial statements
- to evaluate the independence of the statutory auditor or auditing firm, particularly the provision of related services to the Company
- to prepare a proposal for the election of an auditor.

The Company's Board of Directors shall nominate the Chairman and members of the Audit Committee. The Audit Committee consists of at least three (3) members of the Board of Directors. At least one of them must have special expertise in accounting, bookkeeping or auditing. Board members to be elected as members of the Audit Committee must have extensive knowledge of Company's business operations and business segments and sufficient knowledge of accounting and accounting policies. In its organisational meeting on 30 March 2023, the Board of Directors elected Anne Korkiakoski (Chairman), Eero Sihvonen and Hannu Lehto as members of the Audit Committee. After Korkiakoski's resignation on 11 July 2023, Jani Nokkanen was elected as a member of the Audit Committee and Eero Sihvonen replaced Korkiakoski as Chairman of the Audit Committee. Hannu Lehto continued as members of the Committee. The members of the Committee, except Hannu Lehto, are independent of the Company and its significant shareholders.

The Audit Committee convenes at least twice a year. In addition to the Committee members, the meetings shall be attended by the Company's CEO and Chief Financial Officer and, optionally, the Company's auditors. Furthermore, the Committee members may meet the external auditors without the operative management being present in such meetings. During the financial year 2023, the Audit Committee had four (4) meetings and all members attended all meetings.

Shareholders' Nomination Committee

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

The members of the Nomination Committee shall comprise the representatives of the three (3) biggest shareholders who have accepted the responsibility. The biggest shareholders shall be annually named with regard to the situation on the last September date of public trading organised by Nasdaq Helsinki Ltd on the basis of the Company's shareholders' register, held by Euroclear Finland Ltd. Each of the three biggest shareholders shall nominate one (1) representative for the Nomination Committee. Should someone opt out of the nomination right, the right is transferred to the next biggest shareholder in order who otherwise would not have the nomination right. The Chairman of the company's Board of Directors shall act as an expert member of the Nomination Committee without a right to vote.

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

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

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

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

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

In 2023 the Nomination Committee consisted of Hannu Lehto (Lehto Invest Oy), Mikko Kinnunen ja Erkki Veikkolainen (Mevita Invest Oy).

Group Management

CEO

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

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

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

At the end of the financial period 2023 Juuso Hietanen owns directly or indirectly 230,890 shares of the Company which are 0.26 per cent of the Company's shares.

Group's executive team

The CEO is supported by the Group's executive team which on 31 December 2023 consisted of, in addition to CEO:

- Veli-Pekka Paloranta, CFO, Chief Financial Officer
- Matti Koskela, EVP, Business Premises and Housing
- Matti Kuronen, EVP, Wood construction
- Timo Reiniluoto, EVP, Business Support Services
- Jani Pentti, Vice President, Human Resources

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

Veli-Pekka Paloranta, born 1972, has been the Chief Financial Officer in Lehto since November 2015. In 2000– 2015, he has worked in the JOT Automation and Elektrobit groups. During 2010-2015 he was the CFO of Bittium Plc (former Elektrobit Plc) and since 2020 he has acted as the Member of the Board of Directors and the Member of the Audit Committee in Bittium Plc. Paloranta holds the degree of M. of Sc. (Econ.).

Matti Koskela, born 1966, has acted as EVP, Business Premises since beginning of year 2022 and Housing since autumn 2023. Since 1994, he has worked as a foreman and responsible foreman and as a work manager in construction site production. Since 2001, he has worked in the management positions of residential and office construction and renovation construction as unit manager, business group manager and division manager for a construction company YIT. Koskela holds the degree of Civil engineer. On 27 February 2024 Lehto announced that Matti Koskela will no longer continue to work for Lehto.

Matti Kuronen, born 1980, started in the Group's executive team on 1 November 2023. His area of responsibility in the company is the wood construction business. Matti Kuronen has a long career and experience in construction and management in both the private and public sectors. Along with business, he has successfully led various development projects related to the built environment. Kuronen holds the degree of M. of Sc. (Engineering) and is Doctor of Technology. On 27 February 2024 Lehto announced that Matti Kuronen will no longer continue to work for Lehto.

Timo Reiniluoto, born 1966, served from November 2014 to May 2017 as CEO of Lehto's subsidiary Rakennusliike Lehto Oy. Since March 2017 he has acted as EVP, Business Support Services at Lehto Group. He has 30 years' experience in various tasks in the construction sector, including as EVP and Head of Commercial Construction Southern Finland at Skanska. He also has 10 years work experience in Russia. In addition, Reiniluoto served as Board member of Oy Lautex Ab in 2006–2013. Reiniluoto holds the degrees of M.Sc. (Eng.) and Hanken MBA (Real Estate Finance).

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

DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM 31 DECEMBER 2023		
Name	**No. of shares held**	**Shareholding ratio**
Veli-Pekka Paloranta	501,653	0.58%
Matti Koskela	-	-
Matti Kuronen	4,000	0.00%
Timo Reiniluoto	35,887	0.04%
Jani Pentti	-	-
Total	**541,540**	**0.62%**

The memberships of the Group's Executive Team that ended

Jukka Haapalainen, born 1975, was a member of the Group's Executive Team until June 2023. Haapalainen served as EVP, industrial production.

Tero Karislahti, born 1983, was a member of the Group's Executive Team until autumn 2023. Karislahti served as EVP, Housing.

Business operations management

The Group's operational business was during 2023 divided into two service areas: Business Premises and Housing. Matti Koskela acted as the EVP of Business Premises and from the autumn 2023 he also acted as the EVP of Housing when Tero Karislahti left his position. EVP with the service area executive group, oversee the planning of the service area's products and services, production and sales as well as the general development of the service area. The EVP's report monthly to the CEO of the Group and to the service area steering group. The steering group includes the EVP of the service area, the CEO, CFO and the EVP of Business Support Services as well as other management if necessary.

The actual operative business takes place in the subsidiaries of the Company. Four of the subsidiaries are focused on the functions of the service areas, one is focused on industrial scale production and one in designing and planning. The subsidiary in Sweden no longer has operational activities.

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

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

Risk management

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

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

In connection with the strategy process and annual planning, the CEOs of the Company and the EVP's of business areas review business risks which could prevent or endanger the achievement of the Group's strategic or profit targets. The service areas produce risk assessment reports for each business to support the strategy process. Strategic and operative risks are monitored through reporting by the businesses and considered by service area-specific steering groups that convene monthly. The service areas must produce assessments of risks in their own units and provide action plans to manage risks as well as to report on measures taken including the stage and effectiveness of such measures.

The Company's CEO reports the identified risks concerning the Group as well as all planned and effected measures to control such risks to the Board of Directors.

The aim of risk management is to:

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

The aim of risk management is not to:

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

Internal control

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

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

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

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

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

Lehto Group's internal control framework consists of:

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

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

- relevant process risks are identified;
- common control points/Group's minimum requirement control points are identified;
- common control points are implemented in business processes;
- additional control points can be determined as needed at business or functional levels.

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

Internal controls over financial reporting

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

Financial reporting organisation and duties

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

- Group accounting
- subsidiaries' accounting
- sales invoicing and accounts receivable management
- accounts payable management
- remittance of payments
- compilation of monthly financial reports supporting the business operations
- cash management and the coordination of financing
- control of the forecast and budgeting process
- taxation and transfer pricing
- company law-related duties.

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

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

Financial reporting systems

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

The general ledger accounting of the Group companies is handled in the V10 system, and Group consolidation is handled in the Cognos Controller system. Payment process is handled through with Nomentia system.

Project and initiative management monitors project progress directly through the Profio (V10) system, but the profit reports of internal accounting are drawn up using Insightsoftware's FPM (Financial Performance Management) system. In the compilation of profit reports, data from Group and subsidiary accounting as well as project data obtained from the Profio system is used.

Supervision of financial reporting

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

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

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

Risk management and internal control roles and responsibilities

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

Board of Directors

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

Audit Committee

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

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

A more detailed description on how the Audit Committee is fulfilling its supervisory role is available in the Committee's annual plan. The Audit Committee reports to the Company's Board of Directors.

CEO

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

Chief Financial Officer and financial administration

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

The financial administration:

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

HR Director

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

EVP’s of service areas

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

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

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

4. Other information to be provided

Insider Administration

The Board of Directors of Lehto Group Plc has ratified on 9 August 2017 the company’s Insider Guidelines which include directives and policies concerning insider administration, such as manager’s transactions, trading restrictions and insider’s register. The Insider Guidelines supplement the provisions of the Market Abuse Regulation (EU No 596/2014, the “MAR”) and any rules and regulations based on it, Finnish regulations, such as the Criminal Act (39/1889, as amended) and the Securities Markets Act (746/2012, as amended), as well as Nasdaq Helsinki’s Insider Guidelines effective from 3 of July 2016.

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

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

Lehto Group complies with the EU Regulation on Market Abuse (MAR), which declares that managers under the obligation to report insider holdings may not trade the company’s financial instruments during the 30 days prior to the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release (so called “closed period”). In accordance with the Lehto Group’s regulation, the closed period ends the second day from the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release. In addition Lehto recommends that trading with the company’s financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information. According to Nasdaq Helsinki’s insider guidelines the closed window shall be applied to persons that take part in the company’s half year financial reports and financial statements and to other persons defined by the company, i.e. extended closed window. The extended closed window implies that trading with the company’s financial instruments is prohibited of persons subject to the extended closed window in the 30 days prior to publication of quartal financial information and financial statements including information concerning the financial development of the company. These trading restrictions end on the second day following the publication of financial information. In addition, Lehto recommends for extended closed window that trading with the company’s financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information.

Related party administration

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

On 17 June 2020, the Company's Board of Directors approved the guidelines for related party transactions, which determine the principles governing any related party transactions at Lehto Group. In addition to the above-defined related parties, these guidelines are applied more extensively to the Lehto Group's entire personnel. According to the guidelines, all related party transactions shall take place, and prices and other terms shall be set, under market conditions, i.e. under the same principles as with independent parties. The Company maintains a Related Party Log and follows clear reporting and advance approval procedures.

Internal auditing

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

Auditing

According to Section 6 of the Company's Articles of Association, an audit firm whose chief auditor is a Chartered Accountant shall be elected as the company's auditor. The auditor's term of office shall expire at the end of the next Annual General Meeting following their election. In 2023, KMPG Oy Ab, a firm of authorised public accountants, acted as the Company's auditor, with APA Pekka Alatalo as the principal auditor. The fees for audit services in 2023 totalled approximately EUR 195,000. Furthermore, the Company paid the auditor approximately EUR 22,000 for services not related to auditing.