LEHTO

# Financial Statements 2023

Lehto Group Plc

**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 | 1 000 EUR<br>31 Dec 2022 |
|---|---|---|
| **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

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

### Alternative performance measures by ESMA

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

| Key figure | Definition |
|---|---|
| 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% |

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*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 | How the matter was addressed in the audit |
| --- | --- |
| — 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.<br><br>— 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..<br><br>— 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. | — We assessed the presentation of bankrupt companies in the consolidated financial statements against the standards for the preparation of financial statements.<br><br>— 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.<br>— The receivables from the non-bankrupt subsidiaries amount to EUR 13.9 million.<br>— 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*