LEHTO

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Lehto Group Plc's Half-Year Financial Report
1 January- 30 June 2023

Lehto Group Plc:
Half-Year Financial Report 1 January–30 June 2023

27 July 2023 at 7:30

Net sales down, financial position remained stable

This report has been prepared in accordance with the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act. The half-year financial report is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.

Group	**4-6/ 2023**	**4-6/ 2022**	**1-6/ 2023**	**1-6/ 2022**	**1-12/ 2022**
Net sales from continuing operations, EUR million	47.3	92.0	114.6	163.9	344.8
Change in net sales from continuing operations, %	-48.5%	-10.4%	-30.1%	-10.5%	-14.7%
Operating result from continuing operations, EUR million	-10.7	-10.2	-18.2	-21.5	-42.2
Operating result from continuing operations, % of net sales	-22.6%	-11.1%	-15.9%	-13.1%	-12.2%
Result from continuing operations, EUR million	-12.2	-11.2	-20.9	-23.5	-58.8
Result from discontinued operations, EUR million	0.0	31.1	0.0	32.6	32.1
Result for the period, EUR million	-12.2	19.9	-21.0	9.1	-26.7
Order backlog at period end, EUR million	120.9	285.6	120.9	285.6	205.9
Earnings per share, EUR	-0.14	0.23	-0.24	0.10	-0.31
Cash and cash equivalents, EUR million	9.0	18.0	9.0	18.0	13.2
Financial liabilities, EUR million	28.1	18.3	28.1	18.3	33.9
Lease liabilities, EUR million	63.1	85.5	63.1	85.5	77.8
Equity ratio, %	25.1%	33.5%	25.1%	33.5%	27.0%
Net gearing ratio, %	180.4%	84.9%	180.4%	84.9%	147.9%
Equity ratio, excl. IFRS 16 lease liabilities, %	37.9%	46.7%	37.9%	46.7%	38.7%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	42.0%	0.3%	42.0%	0.3%	31.0%

- In January–June, net sales were down 30.1% on the previous year and amounted to EUR 114.6 (163.9) million. Net sales declined in both service areas, but especially in Business Premises. This decrease was due to the lower number of construction projects and termination of business premises project contracts in 2022.
- The operating result from continuing operations was EUR -18.2 (-21.5) million. The operating loss was impacted especially by developer-contracted projects sold at a loss as well as other low-margin or loss-making projects.
- At the end of the review period, there were 480 (1,635) units under construction, which all are related to projects for institutional investors.

- Cash and cash equivalents totalled EUR 9.0 million at the end of the review period (EUR 13.2 million on 31 December 2022). In addition to this, the company had EUR 5.0 million pledged cash deposits as collateral for the credit facility signed on June 30, 2022. Pledges are presented in the receivables in the balance sheet.
- Interest-bearing liabilities excluding IFRS 16 lease liabilities amounted to EUR 28.1 million (EUR 33.9 million on 31 December 2022).
- The order backlog declined to EUR 120.9 million (EUR 205.9 million on 31 December 2022). The order backlog was down in both service areas due to the low order intake.

Net sales by service area, EUR million	**4-6/ 2023**	**4-6/ 2022**	**Change Q4**	**1-6/ 2023**	**1–6/ 2022**	**Change**	**1-12/ 2022**
Housing	38.0	53.6	-29.1%	84.3	92.7	-9.0%	213.3
Business Premises	9.3	38.4	-75.7%	30.3	71.2	-57.5%	131.5
Total	**47.3**	**92.0**	**-48.5%**	**114.6**	**163.9**	**-30.1%**	**344.8**

CEO Juuso Hietanen:

The construction market was exceptionally difficult during the entire first half of the year. The situation in housing sales has remained particularly challenging when customers' purchasing decisions are slowed down not only by general economic uncertainty, but also by the weak availability of loan financing and higher interest rates.

In spite of the difficult market, we sold 193 apartments in projects for consumers and investors during the first half of the year. The number of unsold apartments declined significantly; at the end of June, we had 69 unsold completed apartments, and we have no housing projects involving sales risks under construction. Our ongoing housing projects are targeted at investors and generate relatively steady cash flow.

The market situation has also impacted on business premises projects, slowing down sales. Lehto is actively examining a variety of projects and seeks to carefully select business premises projects that are in line with its strategy. In April, Lehto signed a EUR 26 million agreement to build Finnish headquarters and warehouses for Makita in Tuusula – this agreement was the result of last years of project development.

The company's net sales were down 30%, but the operating loss saw a year-on-year improvement. We have successfully reduced cost levels and the impact of old loss-making projects is constantly decreasing. We have achieved savings in all cost groups and significantly tightened up our factory operations.

Our financial position has remained stable. Cash tied up in net working capital has been released and we have sold some fixed assets. As a result, we have been able to repay debts.

We continue actively negotiations on structural and ownership arrangements. Our key objective for the second half of the year is to complete an arrangement that will enable business development once the market situation improves. We have a skilled organisation and many project concepts that will enable good development in the future.

Outlook for 2023

Lehto's previously published outlook for 2023 remains unchanged.

Due to the uncertain market and financing situation of the construction industry, and the ongoing process regarding structural and ownership arrangements, there are many uncertainties related to 2023 outlook.

Lehto estimates that the 2023 net sales for Housing service area will be lower than in 2022 (EUR 213.3 million in 2022) and the net sales in Business Premises service area will decrease significantly from 2022 (EUR 131.5 million in 2022). Operating result is estimated to improve substantially.

The reason behind the decline in net sales is the decreased amount of projects in business premises and housing. The improvement in operating profit is primarily based on a significant reduction in loss-making projects.

The most significant risks related to net sales and operating result are presented in the chapter "Risks and uncertainty factors" in this report.

Structural arrangements and liquidity

In January 2023, Lehto announced that it has started a process to seek industrial or ownership partners for the company. During the review period, the company has negotiated on different alternatives with both industrial parties and investors. On the publication date of this half-year report, the negotiations are still ongoing and the company will report on the progress of the process as soon as it is time.

The company's liquidity remained at a sufficient level during the first half of the year, as funds tied up in net working capital have been released and the company has sold assets. During the next 12 months, the following factors in particular will affect the sufficiency of cash assets:

- General trends in the Finnish economy and construction market
- New customer order intake
- Obtaining financing and necessary guarantees for projects
- The company's ability to adjust its fixed costs
- Progress in structural and ownership arrangements
- The company's ability to comply with the covenant terms of its key financing agreement signed on June 30, 2022. EBITDA for the review period is lower than the minimum level set in the financing agreement and the company is engaging in constant discussion with its financier banks on the terms of the continuation of financing. At the end of the review period, EUR 10.0 million of the RCF credit facility was in use, and it was secured by, among other things, cash deposits totaling EUR 5.0 million.

The company has drafted profit and cash scenarios that take the aforementioned factors into account. To ensure liquidity, it is important to be able to start up the contracts and projects under preliminary agreements that it has received. The company estimates that the implementation of ownership or structural changes would have a positive impact on the start-up of new projects.

In line with the Group's financing policy, the minimum cash target is 4% of forecast annual net sales for the financial year and the financing secured for the implementation of each project. At the end of the review period, the Group's cash and cash equivalents amounted to more than 4% of forecast annual net sales.

Business environment and business development in the review period

Development of the business environment

Lehto operates in Finland, and the construction sector is very sensitive to general economic cycles. The Bank of Finland forecasted in June 2023 that the Finnish economy will contract this year by 0.4%, as a return to growth is being deferred by the rise in prices, tighter monetary policy and weak export demand. Inflation is nevertheless slowing down this year, and this is already improving household purchasing power. As a consequence, growth will pick up in 2024 to 0.9%. Increased interest rates will dampen growth in investment and private consumption in the immediate years ahead. The Bank of Finland predicts that economic growth will recover to 1.5 percent in 2025.

In its Business Cycle Review published in March 2023, the Confederation of Finnish Construction Industries RT stated that construction will contract by 3.5% this year and will be half a per cent negative next year. According to the Review, the sharp fall in housing start-ups has dragged construction into a downturn. RT estimates that housing start-ups will contract by almost a third this year. At the same time, interest rates and the cost of living will remain elevated, and there will be tighter regulation of financing and construction, among other factors, which will pose challenges to the industry.

A decrease in building permits also forecasts a contraction in the construction market. According to Statistics Finland, building permits granted for new construction in February to April 2023 totalled 6.3 million cubic metres, 47% less than a year earlier. The volume of construction projects that were started up and completed was down 24% year-on-year.

The prices of building materials rose on the previous year throughout the first half of 2023, as reported by Statistics Finland. In May, Statistics Finland reported that construction costs in May 2023 had increased by 3.7% year-on-year. The greatest increase in annual costs for material inputs was seen in thermal insulation (21.2%) and surface materials (11.4%). The greatest decrease in annual costs was seen in wooden structures (-20.6%) and concrete elements (-4.8%).

Interest rates have been low for a long time, but major changes were seen during 2022. This affected investor demand in particular. At the same time, continued high inflation caused a fall in demand and the postponement of investment decisions due to difficulty in forecasting property maintenance costs and rent levels in the near future.

Housing

In the Housing service area, Lehto builds new blocks of flats in growth centres and implements care homes and assisted living units around Finland. Operations focus on growing university towns, where Lehto wants to enable households with low and medium incomes to live in high-quality housing.

The Housing business primarily comprises developer-contracted housing projects, in which the company designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. These customers include private persons, private and institutional investors, and funds.

Most of Lehto's housing projects are concrete apartment buildings and are built using the kitchen/bathroom modules developed and manufactured by Lehto. These modules include the main electricity, water, heat, ventilation and sewerage solutions for the apartment and building. The modules are completely prefabricated at Lehto's own factories and transported to the construction site, where they are lowered into the building through the roof and connected to each other. This patented building method speeds up construction, improves quality and produces cost savings.

An increasing share of Lehto's housing production comprises apartment buildings that are constructed using wooden elements. Apartments in this product family are manufactured as space elements in the company's own factories in Finland – the interior surfaces of the apartment are fully finished when it leaves the factory. Space elements are self-supporting modules that are built at the factory and assembled on site. Wooden apartment buildings involve significantly more industrial prefabrication than concrete apartment buildings. Thanks to this, the on-site schedule can be significantly shorter than in concrete construction.

Lehto also designs and builds care homes and assisted living units for both care operators and municipalities. These construction projects are implemented either under ordinary construction contracts or as investment transactions, where Lehto signs a lease agreement with the service operator and sells the completed property to a party that invests in properties in the sector. In terms of building type, care homes are similar to conventional residential buildings.

Business development in the review period

Demand for housing construction began to weaken clearly during 2022. Consumer confidence is weak and there are uncertainties regarding with the economic situation in Finland and the world. Rising interest rates and inflation as well as weaker availability of financing have a negative impact on demand for housing among both consumers and investors.

The Housing service area's net sales experienced a year-on-year decrease of 9.0% to EUR 84.3 (92.7) million. Sales volumes of housing units were lower than in the previous year, and no new housing projects were started in the period. During the review period, 193 apartments were sold, most of them in housing projects targeted at consumers. 80 apartments in one consumer project were sold to an investor client.

Sold housing units during the review period	**1-6/2023**	**1-6/2022**	**1-12/2022**
Investor projects	53	136	497
Consumer projects	140	149	261
Sold housing units during the review period, total	**193**	**285**	**758**

During the period, 716 (602) housing units were completed, but no new housing projects were started up (235 units started up in 1-6/2022). There were 480 (1,635) housing units under construction at the end of the review period.

Housing units under construction	**1-6/2023**	**1-6/2022**	**1-12/2022**
Under construction at the beginning of the period	1,196	2,002	2,002
+ started up during the period	-	235	586
- completed during the period	-716	-602	-1,392
Housing units under construction at period-end	**480**	**1,635**	**1,196**

At period end, the number of completed and unsold apartments stood at 69 (56). There were no unsold apartments under construction (254 units on 30 June 2022). In the challenging market situation, Lehto has kept the number of unsold apartments at a moderate level to safeguard cash flow. Housing projects strongly focus on investor sales, but the company has the technical and operational capabilities to begin consumer projects when the market situation changes.

Unsold housing units	**1-6/2023**	**1-6/2022**	**1-12/2022**
Under construction	-	254	181
Completed	69	56	73
Unsold housing units, total	**69**	**310**	**254**

The Housing service area's order backlog stood at EUR 71.6 million at the end of the review period (EUR 155.6 million on 31 December 2022). The housing production order backlog includes the proportion of investor projects that have been started but have not yet been recognised as net sales. A consumer project is included in the order backlog once the decision to start construction has been made and the contract for the project has been signed.

The volume of care home construction was slightly lower than in the comparison period due to a decrease in the number of projects. One (1) care home was completed during the period. At period-end, one (1) assisted living facility was under construction. Care home and assisted living projects are in the negotiation phase as both individual sites and as part of larger projects in city centres and suburban areas. Lehto expects demand for care homes and assisted living to rise in the longer term.

Business Premises

Lehto has lengthy experience in building hall-like business premises, such as retail premises, shopping centres, and logistics, warehouse and production facilities. Lehto has also built other types of buildings, such as offices, hotels and schools – some of which have resulted in significant losses. In line with its current strategy, the Business Premises service area focuses on the construction of hall-like business premises.

Business premises are designed according to customers' needs and are built using the structural and spatial solutions that have been developed or tried and tested by Lehto. This area serves local, national and international customers, as well as cities and municipalities.

Business Premises conducts most of its operations using a 'design and implement' model in which Lehto is responsible for both the design and actual construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and then designs and builds the property either wholly or partly at its own risk.

Business development in the review period

The service area's net sales experienced a year-on-year decrease of 57.5% to EUR 30.3 (71.2) million. Net sales decreased due to the decline in the number of projects and as a result of Lehto's more selective project selection process.

Four business premises projects were completed and handed over during the review period (4 sites in 1-6/2022). At period-end, three (14) projects were under construction, most notably a local service centre in Kivistö, Vantaa, the Finnish headquarters of Makita, and a warehouse building in Tuusula. The Business Premises service area's order backlog decreased slightly to EUR 49.3 million (EUR 50.3 million on 31 December 2022).

On 24 April 2023, Lehto announced that it had signed an agreement according to which Lehto sells its rights and ownership related to the Hippos project in Jyväskylä to Jyväskylän Yhteissijoitus Ky, owned by the investors, and to the special purpose vehicle Jyväskylän Hippos Ky, which was established at the time for the project. Furthermore, according to the agreement, the buyers will pay Lehto a total of around EUR 5 million as consideration. The condition set for the payment is that the construction of the project will be started up by another party at a later date. The payment will be made in instalments over the course of 12 months after the construction of the Hippos project has started.

Factory production

Lehto manufactures a variety of building modules and elements at its own production facilities, primarily for its own use. The company seeks to increase its sales of products outside the Group.

The major share of the factory production comprises kitchen-bathroom modules for concrete-frame apartment buildings, space elements for wooden apartment buildings and large roof elements for large business premises. In addition, Lehto manufactures external wall elements, aluminium doors, windows as well as kitchen and other fixtures at its factories.

In March, Lehto sold one of its factories in Oulainen, including its warehouse buildings, to the City of Oulainen. The sold factory measures around 10,000 m² and the total sales price was approximately EUR 4.7 million. The sale has a minor positive impact on Lehto's operating result for 2023 and a positive impact on cash flow. During the review period, Lehto also decided to close down its factory units in Siikajoki and Ii. After these measures, Lehto still has a factory measuring around 20,000 m² in Hartola and a factory of about 10,000 m² in Oulainen. Efficiency-improving measures implemented in 2022 and 2023 have significantly reduced the fixed costs of factory production.

Balance sheet and financial position

Consolidated balance sheet, EUR million	**30 June 2023**	**30 June 2022**	**31 Dec 2022**
Non-current assets	24.7	46.0	27.7
Current assets			
Inventories, excluding IFRS 16 assets	62.1	126.5	101.2
Inventories, IFRS 16 assets	59.7	82.3	70.9
Current receivables	33.4	68.4	50.4
Cash and cash equivalents	9.0	18.0	13.2
Non-current assets held for sale	0.0	0.0	3.8
Total assets	**188.9**	**341.2**	**267.2**
Equity	45.6	101.2	66.6
Financial liabilities	28.1	18.3	33.9
Lease liabilities	63.1	85.5	77.8
Liabilities based on customer contracts (advances received)	7.3	38.8	20.6
Other payables	44.8	97.4	68.4
Total equity and liabilities	**188.9**	**341.2**	**267.2**

The balance sheet total declined to EUR 188.9 (267.2) million. The key figures for financial standing and indebtedness weakened, as shareholders' equity and cash and cash equivalents decreased due to the loss-making result. Cash and cash equivalents also decreased by repayments of financial liabilities. The equity ratio (taking lease liabilities into consideration) stood at 25.1% (27.0%) and the net gearing ratio was 180.4% (147.9% on 31 December 2022). The equity ratio without the lease liabilities under IFRS 16 stood at 37.9% (38.7%) and the net gearing ratio was 42.0% (31.0%).

Assets

Non-current assets amounted to EUR 24.7 (27.7) million at the end of the period, including goodwill of EUR 4.6 (4.6) million, EUR 2.2 (2.9) million in machinery and equipment and EUR 9.9 (9.7) million in factory buildings. On 31 December 2022, the balance sheet also included a factory building under non-current assets held for sale, valued at EUR 3.8 million; it was sold in the first quarter of 2023.

Inventories fell to EUR 121.8 (172.1) million, mainly due to the completion and sales of unfinished projects and the sales of completed apartments. Also, IFRS 16 related inventories decreased by EUR 11.2 million.

Current receivables declined to EUR 33.4 (50.4) million and included trade receivables of EUR 19.1 (21.8) million and percentage-of-completion receivables of EUR 10.0 (24.4) million.

Cash and cash equivalents totalled EUR 9.0 million on 30 June 2023 (EUR 13.2 million on 31 December 2022). In addition to this, the company had EUR 5.0 million in pledges as collateral for the RCF credit facility. Pledges are presented in the receivables in the balance sheet.

Equity and liabilities

As a consequence of the loss for the financial year, shareholders' equity fell to EUR 45.6 (66.6) million during the period.

Financial liabilities excluding lease liabilities declined to EUR 28.1 million during the review period (EUR 33.9 million on 31 December 2022). The table below presents a breakdown of interest-bearing liabilities:

Interest-bearing liabilities	**30 June 2023**	**30 June 2022**	**31 Dec 2022**
Revolving credit facility (RCF)	10.0	0.0	13.0
Convertible bond	15.0	7.6	15.0
with adjusted expenses and equity component separated	-3.2	-2.0	-3.3
RS loans related to unsold apartments in developer contracted housing projects	6.3	6.8	9.2
Investment loans	0.0	4.7	0.0
VAT payment arrangement	0.0	1.3	0.0
Financial liabilities, total	**28.1**	**18.3**	**33.9**
IFRS 16 lease liabilities	63.1	85.5	77.8
Interest-bearing liabilities, total	**91.3**	**103.9**	**111.7**

IFRS 16 lease liabilities are based on the company's lease payment obligations. In line with IFRS 16, long-term leases are presented in the lessee's balance sheet as both an asset and liability item. The majority of Lehto's lease liabilities relate to plot rents for developer contracted housing projects; they are Lehto obligations for as long as the project is under Lehto's control.

Liabilities based on customer contracts (advances received) decreased from the 2022 balance sheet date to EUR 7.3 (20.6) million. Liabilities based on customer contracts include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities decreased to EUR 44.8 (68.4) million. They include liabilities related to ordinary business operations, such as EUR 11.8 (24.8) million in trade payables and EUR 4.7 (9.6) million in VAT liabilities.

Cash flow statement, EUR million	**1-6/ 2023**	**1-6/ 2022**	**1-12/ 2022**
Cash flow from operating activities			
Result for the period + adjustments to accrual-based items	-20.4	-25.9	-49.2
Change in net working capital	15.0	9.8	15.5
Total cash flow from operating activities	-5.4	-16.1	-33.7
Cash flow from investments	5.0	28.2	27.8
Cash flow from financing	-3.9	-26.8	-13.6
Change in cash and cash equivalents	**-4.2**	**-14.7**	**-19.5**
Cash and cash equivalents at the beginning of the period	13.2	32.8	32.8
Cash and cash equivalents at the end of the period	9.0	18.0	13.2

Net cash flow from operating activities was EUR -5.4 (-16.1) million, which includes a positive impact of EUR 15.0 (9.8) million due to the decrease in net working capital. The decline in net working capital was caused by a reduction in inventories, sales receivables and other receivables.

Net cash flow from investments was EUR 5.0 (28.2) million, of which EUR 5.1 million resulted from the divestment of the Oulainen factory operations and associated machinery and fixtures. Investments in tangible and intangible assets were EUR -0.1 (-0.4) million.

Net cash flow from financing was EUR -3.9 (-26.8) million. During the review period, EUR 3 million of the RCF and EUR 0.8 (1.1) million in lease liabilities were paid off.

	Excluding IFRS 16 lease liabilities			Including IFRS 16 lease liabilities		
Financial position, EUR million	**30 June 2023**	**31 Dec 2022**	**Change**	**30 June 2023**	**31 Dec 2022**	**Change**
Cash and liquid assets	9.0	13.2	-4.3	9.0	13.2	-4.3
Interest-bearing liabilities	28.1	33.9	-5.8	91.3	111.7	-20.5
Interest-bearing net debt	19.1	20.6	-1.5	82.3	98.5	-16.2
Equity ratio, %	37.9%	38.7%	-0.4%	25.1%	27.0%	-1.6%
Net gearing ratio, %	42.0%	31.0%	10.6%	180.4%	147.9%	30.5%

Cash and liquid assets do not include cash deposits of EUR 5.0 million, which have been pledged as collateral for the company's RCF credit facility. Pledged cash assets are presented in long-term and short-term receivables in the balance sheet.

Key financing agreements

Lehto has a Revolving Credit Facility (RCF) amounting to EUR 13.0 million with OP Corporate Bank plc and Nordea Bank Plc. The RCF is valid until 31 March 2024 and it includes securities, financial covenants related to EBITDA and minimum cash requirements, restriction on dividend payouts while the agreement is in force, and conditions related to the company’s operations and the constitution and chairman of the Board of Directors. At the end of the review period, EUR 10.0 million of the credit facility was in use, and according to the conditions set in the agreement company is unable to use more funds from the facility. On June 30, 2023, the agreement was secured by, among other things, cash deposits of EUR 5.0 million. EBITDA for the review period is lower than the minimum level set in the RCF financing agreement and the company is engaging in constant dialogue discussion with its financier banks on the terms of the continuation of financing.

In June 2022, Lehto issued convertible bonds of EUR 15.0 million. The convertible bonds are convertible into new and/or existing shares in Lehto. The loan is fully subscribed and matures in June 2027. The issue 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.

Personnel and remuneration

The average number of Group personnel during the review period was 559 (860 in 2022). The number of personnel at period-end was 503 (664 on 31 December 2022), with temporary layoffs amounting to about 150 person years. About 58% of the Group’s personnel are salaried employees and about 42% work at construction sites.

In March 2023, on the basis of an authorisation granted by the Annual General Meeting of 2 May 2022, the company carried out a directed bonus issue of 103,782 shares in order to implement the 2020 share-based incentive scheme for key personnel.

Risks and uncertainty factors

Lehto assesses risks in its daily operations on a continual basis and develops Group-wide risk management practices together with its operative companies. Through the continuous development of risk management, the company seeks to attract new business opportunities and partners, as well as to further improve the profitability and predictability of its operations. Further development of risk management is one of the major priorities in Lehto's operations.

The main risks in the operative business include general risks related to project pricing, schedules, quality, technical implementation and the adherence of stakeholders to agreements. Lehto's reliance on module production and the partial dependence of its housing production on the schedule and efficiency of module production present a risk related to deviations or interruptions in the implementation of modular products.

In its business operations, Lehto is also exposed to risks relating to the availability of financing, overall economic trends and political decision-making and other risks relating to the activities of the public sector. As part of its operational business, Lehto continuously concludes agreements with various parties. The related risks include the technical, legal and commercial condition of the acquired property. The unique and complex construction projects in Lehto's Business Premises service area, in particular, always involve risks related to implementation and costs.

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These business models involve different risks. In traditional contracting, project income is recognised according to the degree of completion. The main risk in this model is that total costs for the project exceed the estimated costs or the completion of the project is delayed.

The main risk in own production is that the company is not able to sell the production within the planned time schedule or at the planned price. In addition, project costs can exceed the estimated costs. Failure in project pricing, technical implementation, estimating costs and time schedule, selling the property or finding financing can have a negative impact on the company's result and financial position.

Part of Lehto's business involves agreements according to which Lehto builds premises in line with the customer's needs and only sells the premises upon their completion or at a later stage to a fund, for example. Despite Lehto's completion of premises according to the agreed schedule and costs, Lehto carries a risk related to the capacity of the fund to provide the cash required for the purchase of the premises at the agreed time of payment.

The project business the Group carries out is characterised by variation, which can be significant, in profit between different reporting periods due to the accounting methods of projects. The Group's cash flow is usually generated in step with a project's degree of completion, however such that the last instalment payable after the completion is bigger than the other instalments. Thereby a delay of an individual project can have an effect on the sufficiency of financing. In addition, a project delay may mean that net sales and operating profit from that project are pushed back to the next financial period, thereby weakening net sales and operating profit in the current financial period.

As a result of business growth, working capital is tied up in inventories and receivables in particular. If the company’s business is expanding simultaneously in several service areas, large purchase commitments for construction sites are realised and receivable payments from customers are delayed, the company may find itself in a situation in which its additional financing costs will increase.

Changing building regulations or zoning policies can also have significant effects on the company’s business. In a period of economic growth in construction, the availability of skilled labour may also present a risk for the planned launch of a project in the agreed schedule.

Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them. More information on Lehto’s risks and risk management is available at www.lehto.fi.

Key risks during 2023

Lehto and other construction companies are facing a tougher situation due to the weak economic climate in the construction market and the rising inflation and interest rates. Demand for apartments is particularly low, and demand for business premises has also weakened. It is possible that the weak trend will continue, demand for housing will remain low and sales prices will have to be reduced to promote sales. The general weakening of the Finnish economic climate may also lead to payment difficulties among customers, which may result in sales credit losses.

The prices of numerous building materials increased sharply and the availability of certain materials weakened in 2022. Although the prices of certain building materials declined during the first half of 2023, on the whole construction costs have continued to rise slightly. It is possible that prices will remain higher or continue to rise.

It is more difficult to obtain debt financing and guarantees for construction projects than in previous years. It is possible that the startup of the company’s construction projects will be delayed if Lehto is unable to organise project-specific financing or guarantees for its projects.

If new construction projects cannot be started, Lehto’s revenue streams will decrease, which would require lowering fixed costs. It is possible that costs cannot be adjusted in step with the declining volume. This would have a negative impact on the company’s profitability and cash adequacy.

Lehto is negotiating with industrial actors and investors on ownership and/or structural arrangements. Lehto estimates that the implementation of the arrangement would have a positive effect on Lehto’s opportunities to obtain financing and guarantees for construction projects, which would facilitate the startup of new projects. A delay in the implementation of the arrangement would presumably push back the startup of new construction projects and have a negative impact on the company’s result and cash flows.

It is possible that, in spite of cash and other collateral, the company will not be able to fulfil the conditions set by its financier banks for the continuation of financing, in which case these banks may withdraw from all their financing agreements. Without a replacement financing solution, the company’s liquidity would weaken significantly.

After the end of the review period, the company has arisen 3.5 million euros receivable related to the legal process. Delay in the payment of the receivable would weaken Lehto's liquidity. The company has started a collection process to receive payment.

Lehto estimates that the coronavirus pandemic no longer has a direct impact on the company's business. Russia's war of aggression in Ukraine is not considered to have a direct impact on Lehto's business, but the effects of the war are reflected in rising general economic uncertainty.

Resolutions of the Annual General Meeting

In accordance with the proposal of the Board of Directors, the Annual General Meeting (AGM) of 30 March 2023 decided that no dividend will be paid for the financial year ending on 31 December 2022.

The AGM confirmed the number of Board members to be four. Pursuant to the proposal made by the shareholders' nomination committee, Eero Sihvonen, Anne Korkiakoski, Jani Nokkanen and Hannu Lehto were re-elected as members of the Board of Directors. The term of the Board members will expire at the end of the Annual General Meeting 2024.

The above-mentioned and other decisions of the Annual General Meeting were disclosed in a stock exchange release on 30 March 2023.

Events after the review period

On July 11, 2023, Lehto announced that Anne Korkiakoski has resigned from the board of directors of Lehto. Eero Sihvonen (chairman), Hannu Lehto and Jani Nokkanen continues in the board. Due Korkiakoski's resignation the Board decided to change the composition of the audit committee, so that Jani Nokkanen was elected a member of the audit committee and Eero Sihvonen a chairman of the audit committee.

After Korkiakoski's resignation, Korkiakoski has returned 40,255 shares to the company from the company's shares she received as part of the Board's yearly remuneration and following the transfer, Lehto Group Plc holds now a total of 74,596 of its own shares.

After the review period, the company has redeemed, based on the arbitration award, a share of the business premise built in 2013. After the redemption, Lehto's ownership is 38.1% and the other party's share is 61.9%. Lehto's share of the redemption price and redemption-related costs is approximately EUR 2.2 million.

Lehto announced on July 24, 2023, that Matti Kuronen (43), Master of Science in Engineering and Doctor of Technology, will start as a new member of Lehto Group Plc's Executive Board on 1 November 2023. His area of responsibility in the company is the wood construction business. In addition, Matti Koskela, EVP of Business Premises, will also take on operational responsibilities in the Housing business during the fall, as the current EVP of the Housing service area, Tero Karislahti, will leave the company at the end of 2023.

Vantaa, 27 July 2023
Lehto Group Plc
Board of Directors

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TABLES

The accounting policies and formulas of key figures applied in this review are mainly the same as in the latest annual report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME EUR million	**1-6 / 2023**	**1-6 / 2022**	**1-12 / 2022**
Net sales	**114.6**	**163.9**	**344.8**
Other operating income	2.3	0.3	1.1
Changes in inventories	-36.1	18.7	-5.8
Material and services	-74.8	-165.6	-312.1
Employee benefit expenses	-14.6	-28.5	-48.8
Depreciation and amortisation	-2.2	-2.9	-5.9
Other operating expenses	-7.5	-7.4	-15.5
Operating result	**-18.2**	**-21.5**	**-42.2**
Financial income	0.0	0.0	0.0
Financial expenses	-2.6	-1.3	-3.4
Result before taxes	**-20.8**	**-22.8**	**-45.5**
Income taxes	-0.1	-0.7	-13.3
Result from continuing operations	**-20.9**	**-23.5**	**-58.8**
Result from discontinued operations	0.0	32.6	32.1
Result for the period	**-21.0**	**9.1**	**-26.7**
Result attributable to			
Equity holders of the parent company	-21.0	9.1	-26.7
Non-controlling interest	0.0	0.0	0.0
	-21.0	**9.1**	**-26.7**
Components of other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation difference	0.0	0.0	0.0
	0.0	**0.0**	**0.0**
Comprehensive result, total	**-20.9**	**9.1**	**-26.6**
Comprehensive result attributable to			
Equity holders of the parent company	-20.9	9.1	-26.6
Non-controlling interest	0.0	0.0	0.0
	-20.9	**9.1**	**-26.6**

Earnings per share calculated from the result attributable to shareholders of the parent company, EUR per share

Average number of (issue-adjusted) outstanding shares during the period, basic	87,307,886	87,240,819	87,276,343
Average number of (issue-adjusted) outstanding shares during the period, diluted	87,406,903	87,440,873	87,433,926
Earnings per share from continuing operations, basic	-0.24	-0.27	-0.67
Earnings per share from continuing operations, diluted	-0.24	-0.27	-0.67
Earnings per share from discontinued operations, basic	0.00	0.37	0.37
Earnings per share from discontinued operations, diluted	0.00	0.37	0.37
Earnings per share, basic	-0.24	0.10	-0.31
Earnings per share, diluted	-0.24	0.10	-0.31

CONSOLIDATED BALANCE SHEET EUR million	2023/6/30	2022/6/30	2022/12/31
Assets			
Non-current assets			
Goodwill	4.6	4.6	4.6
Other intangible assets	1.1	1.7	1.4
Property, plant and equipment	10.7	17.8	13.6
Investment properties	0.7	0.7	0.7
Investments and receivables	7.6	7.6	7.4
Deferred tax assets	0.0	13.5	0.0
Non-current assets total	*24.7*	*46.0*	*27.7*
Current assets			
Inventories	121.8	208.8	172.1
Trade and other receivables	33.4	68.4	50.4
Cash and cash equivalents	9.0	18.0	13.2
Current assets total	*164.2*	*295.2*	*235.7*
Non-current assets held for sale	0.0		3.8
Assets, total	**188.9**	**341.2**	**267.2**
Equity and liabilities			
Equity			
Share capital	0.1	0.1	0.1
Invested non-restricted equity reserve	88.7	88.7	88.7
Translation difference	-0.2	-0.2	-0.2
Retained earnings	-22.0	3.5	4.6
Result for the financial period	-21.0	9.1	-26.7
Equity attributable to shareholders of the parent company	45.6	101.2	66.6
Non-controlling interest	0.0	0.0	0.0
Equity total	*45.6*	*101.2*	*66.6*
Non-current liabilities			
Deferred tax liabilities	0.0	0.7	0.0
Non-current provisions	7.1	1.5	5.9
Financial liabilities	11.8	5.7	11.7
Lease liabilities	58.3	83.3	68.4
Other non-current liabilities	0.1	4.1	0.2
Non-current liabilities total	*77.4*	*95.3*	*86.2*
Current liabilities			
Current provisions	6.5	14.1	7.6
Financial liabilities	16.3	12.6	22.2
Lease liabilities	4.8	2.2	9.4
Liabilities to customers for constructing contracts (advances received)	7.3	38.8	20.6
Trade and other payables	31.1	77.0	54.6
Current liabilities total	*66.0*	*144.7*	*114.5*
Liabilities total	143.3	240.0	200.7
Equity and liabilities, total	**188.9**	**341.2**	**267.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Equity attributable to shareholders of the parent company						
	Share capital	Invested non-restricted equity reserve	Translation difference	Retained earnings	**Total**	Non-controlling interest	**Equity, total**
Equity at 1 January 2022	**0.1**	**88.7**	**-0.3**	**2.4**	**90.9**	**0.0**	**90.9**
Comprehensive income							
Result for the financial period			0.0	9.1	**9.1**		**9.1**
Total comprehensive income			***0.0***	***9.1***	***9.1***		***9.1***
Transactions with equity holders							
The equity component separated from the convertible bond				1.1	**1.1**		**1.1**
Share-based compensation				0.0	**0.0**		**0.0**
Transactions with equity holders, total				***1.1***	***1.1***		***1.1***
Equity at 30 June 2022	**0.1**	**88.7**	**-0.2**	**12.6**	**101.2**	**0.0**	**101.2**
Equity at 1 January 2023	**0.1**	**88.7**	**-0.2**	**-22.0**	**66.6**	**0.0**	**66.6**
Comprehensive income							
Result for the financial period			0.0	-21.0	**-20.9**	0.0	**-20.9**
Total comprehensive income			***0.0***	***-21.0***	***-20.9***	***0.0***	***-20.9***
Transactions with equity holders							
Share-based compensation				0.0	**0.0**		**0.0**
Transactions with equity holders, total				***0.0***	***0.0***		***0.0***
Equity at 30 June 2023	**0.1**	**88.7**	**-0.2**	**-43.0**	**45.6**	**0.0**	**45.6**

CONSOLIDATED CASH FLOW STATEMENT EUR million	1-6 / 2023	1-6 / 2022	1-12 / 2022
Cash flow from operating activities			
Result for the financial period	-21.0	9.1	-26.7
Adjustments:			
Non-cash items	0.1	-6.2	-8.3
Depreciation and amortisation	2.2	2.9	5.9
Financial income and expenses	2.6	1.3	3.3
Capital gains	-0.9	-31.6	-31.6
Income taxes	0.1	1.1	13.7
Changes in working capital:			
Change in trade and other receivables	16.8	11.1	25.6
Change in inventories	38.3	-17.7	8.9
Change in trade and other payables	-40.0	16.3	-19.0
Interest paid and other financial expenses	-3.4	-2.3	-5.4
Financial income received	0.0	0.0	0.1
Income taxes paid	-0.1	-0.3	-0.3
Net cash from operating activities	**-5.4**	**-16.1**	**-33.7**
Cash flow from investments			
Investment in property, plant and equipment	-0.1	-0.2	-0.4
Investment in other intangible assets	0.0	-0.2	-0.4
Sale of discontinued operations (less cash at the time of sale)		28.7	28.7
Proceeds from sale of tangible and intangible assets	5.1	0.1	0.1
Financial assets at fair value through profit or loss	0.0	-0.2	-0.2
Repayments of loan receivables	0.0	0.0	0.0
Net cash from investments	**5.0**	**28.2**	**27.8**
Cash flow from financing			
Loans drawn	0.0	7.6	28.0
Loans repaid	-3.0	-32.5	-38.3
Lease liabilities paid	-0.8	-1.1	-2.2
Costs related to paid share issue	0.0	-0.8	-1.1
Costs related to repurchasing own shares	0.0	0.0	0.0
Net cash used in financing activities	**-3.9**	**-26.8**	**-13.6**
Change in cash and cash equivalents (+/-)	*-4.2*	*-14.7*	*-19.5*
Cash and cash equivalents at the beginning of the year	13.2	32.8	32.8
Effects of exchange rate change	0.0	0.0	-0.1
Cash and cash equivalents at the end of the period	9.0	18.0	13.2

KEY FIGURES	1-6 / 2023	1-6 / 2022	1-12 / 2022
Net sales, EUR million	114.6	163.9	344.8
Net sales, change %	-30.1%	-10.5%	-14.7%
Operating result, EUR million	-18.2	-21.5	-42.2
Operating result, as % of net sales	-15.9%	-13.1%	-12.2%
Result for the period, EUR million	-21.0	9.1	-26.7
Result for the period, as % of net sales	-18.3%	5.6%	-7.7%
Equity ratio, %	25.1%	33.5%	27.0%
Gearing, %	130.6%	93.7%	107.7%
Net gearing ratio, %	180.4%	84.9%	147.9%
Order backlog, EUR million	120.9	285.6	205.9
Personnel during the period, average	559	993	860
Personnel at the end of period	503	814	664
Gross expenditure on assets, EUR million	0.1	0.4	0.8
Equity / share, EUR	0.52	1.16	0.76
Earnings per share, basic	-0.24	0.10	-0.31
Earnings per share, diluted	-0.24	0.10	-0.31
Average number of (issue-adjusted) outstanding shares during the period, basic	87,307,886	87,240,819	87,276,343
Average number of (issue-adjusted) outstanding shares during the period, diluted	87,406,903	87,440,873	87,433,926
Number of (issue-adjusted) outstanding shares at the end of the period	87,305,069	87,311,287	87,311,287
Market value of share at the end of period, EUR million	18.2	32.7	15.0
Share prices, EUR			
Highest price, EUR	0.33	0.94	0.94
Lowest price, EUR	0.17	0.35	0.17
Average price, EUR	0.24	0.59	0.51
Price at the end of period, EUR	0.21	0.38	0.17

LIABILITIES AND GUARANTEES **EUR million**	**2023/6/30**	**2022/6/30**	**2022/12/31**
Loans covered by pledges on assets			
Loans from financial institutions	10.0	4.5	13.0
Debts on shares in unsold housing and real estate company shares	6.3	6.8	9.2
Instalment debts	0.0	0.1	0.0
Total	**16.3**	**11.4**	**22.2**
Guarantees			
Company mortgages	135.2	0.0	135.2
Real-estate mortgages	108.8	11.3	213.5
Pledges	13.0	6.6	13.3
Absolute guarantees	0.0	0.2	0.2
Total	**121.7**	**18.2**	**227.0**
Contract guarantees			
Production guarantees	14.4	52.0	27.2
Warranty guarantees	15.2	13.3	15.6
RS guarantees	14.5	19.2	20.2
Payment guarantees	2.4	0.9	2.4
Rent guarantees	0.1	0.0	0.0
Total	**46.6**	**85.4**	**65.3**

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.

REVENUE ANALYSIS **EUR million**	**1-6/2023**	**1-6/2022**	**1-12/2022**
Revenue recognised over time	76.4	136.7	270.0
Revenue recognised upon delivery	38.1	27.1	74.6
Rental income	0.1	0.1	0.3
Total	**114.6**	**163.9**	**344.8**

SEGMENT INFORMATION

The Group has one operating segment, Building Services. The segment’s operations consist mainly of providing new construction services. The Group's management monitors the entire Group, and the segment figures are consistent with the Group figures.

RELATED PARTIES

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

Transactions with related parties

EUR million	Sales 1-6/2023	Sales 1-6/2022	Purchases 1-6/2023	Purchases 1-6/2022	Sales 1-12/2022	Purchases 1-12/2022
Key personnel and their controlled entities	0.3	4.1	2.4	4.5	5.2	9.1
Total	**0.3**	**4.1**	**2.4**	**4.5**	**5.2**	**9.1**

EUR million	Receivables 2023/6/30	Receivables 2022/6/30	Liabilities 2023/6/30	Liabilities 2022/6/30	Receivables 2022/12/31	Liabilities 2022/12/31
Key personnel and their controlled entities	1.0	3.5	0.2	0.7	0.7	0.2
Total	**1.0**	**3.5**	**0.2**	**0.7**	**0.7**	**0.2**

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. There has been no transactions with associates.

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