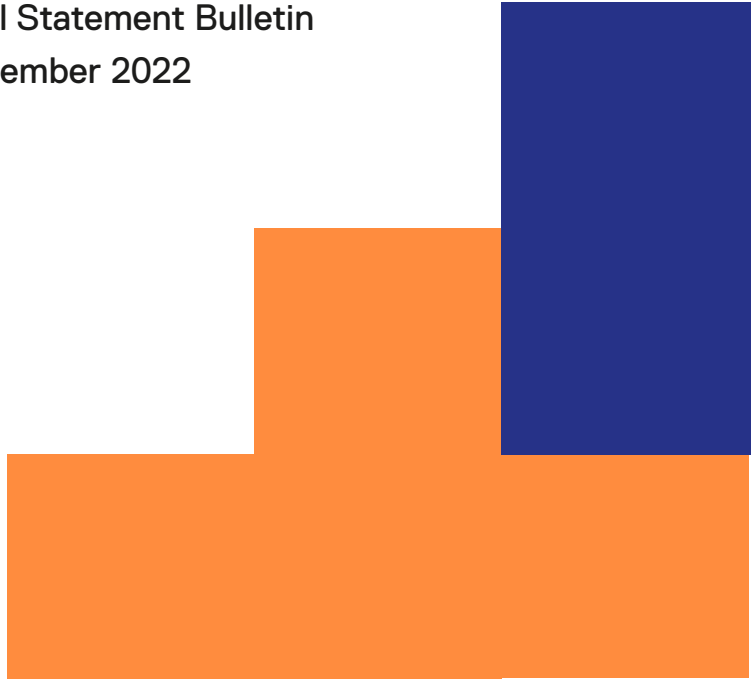




**LEHTO**

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Lehto Group Plc Financial Statement Bulletin  
1 January–31 December 2022



# A year of changes and restructuring, net sales fall, a loss-making operating result

*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 financial statement bulletin is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.*

## Summary 2022

Group	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Net sales from continuing operations, EUR million	94.7	146.5	344.8	404.1
Change in net sales from continuing operations, %	-35.4%	-9.3%	-14.7%	-21.8%
Operating result from continuing operations, EUR million	-14.3	-16.5	-42.2	-28.3
Operating result from continuing operations, % of net sales	-15.1%	-11.2%	-12.2%	-7.0%
Result from continuing operations, EUR million	-27.8	-17.4	-58.8	-29.9
Result from discontinued operations, EUR million	-0.4	-3.0	32.1	-2.7
Result for the period, EUR million	-28.2	-20.5	-26.7	-32.6
Order backlog at period end, EUR million	205.9	444.2	205.9	444.2
Earnings per share, EUR	-0.32	-0.23	-0.31	-0.37
Cash and cash equivalents, EUR million	13.2	32.8	13.2	32.8
Financial liabilities, EUR million	33.9	45.8	33.9	45.8
Lease liabilities, EUR million	77.8	90.4	77.8	90.4
Equity ratio, %	27.0%	27.2%	27.0%	27.2%
Net gearing ratio, %	147.9%	113.8%	147.9%	113.8%
Equity ratio, excl. IFRS 16 lease liabilities, %	38.7%	37.3%	38.7%	37.3%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	31.0%	14.4%	31.0%	14.4%

- ◆ In 2022, net sales from continuing operations were down 14.7% on the previous year and amounted to EUR 344.8 (404.1) million. Net sales decreased in both service areas due to a reduction in the number of construction projects. The operating result from continuing operations was EUR -42.2 (-28.3) million. The operating result was burdened by approximately EUR 30 million in special items. These special items are:
  - ◆ Five fixed-price business premises projects that were priced before 2021 resulted in considerable losses due to rising construction costs
  - ◆ Significant reductions in the sale prices of housing units in one project in a discontinued line of business, and also in some other individual projects
  - ◆ Costs incurred by terminating loss-making or low-margin project contracts
  - ◆ Losses related to the discontinued Optimikodit business
  - ◆ Credit losses
- ◆ The construction of 586 (1,835) new housing units was started during the financial year. The number of start-ups fell due to the postponement of several housing projects towards the end of the financial year. At the end of the review period, there were 1,196 (2,002) units under construction, the majority of which are related to projects for institutional investors. At period-end, the number of completed and unsold apartments stood at 73.
- ◆ The operating loss was EUR 26.7 million (operating loss of EUR 32.6 million). The result for the financial year was improved by capital gains from the divestment of the pipeline renovation business (EUR +30.9 million after expenses incurred by the sale) and was weakened by a significant reduction in the value of deferred tax assets (EUR -12.8 million).
- ◆ At the end of the financial year, cash and cash equivalents stood at EUR 13.2 (32.8) million and interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 33.9 (45.8) million. Cash and cash equivalents were increased by the divestment of the pipeline renovation business, and reduced by loan repayments and the loss-making result.
- ◆ The Group's order backlog fell to EUR 205.9 million (order backlog for continuing operations EUR 444.2 million on 31 December 2021).
  - ◆ The order backlog for the Business Premises service area decreased by 75 per cent to EUR 50.3 million, and the order backlog for the Housing service area decreased by 36 per cent to EUR 155.6 million. The main reason for the decrease in the order backlog for business premises is the termination of project contracts that had already been entered into the order backlog and were under negotiation due to their loss-making nature.
  - ◆ The order backlog for housing fell due to the low number of project start-ups. Difficulty in obtaining financing led to delays in project start-ups.
- ◆ A financing package amounting to about EUR 50 million was implemented in June. Its key elements were:
  - ◆ Divestment of the pipeline renovation business (approximately EUR +29 million)
  - ◆ A new RCF credit facility from the banks (approximately EUR +13 million)
  - ◆ RS financing from banks for ongoing and new construction projects (approximately EUR +26 million)
  - ◆ The issue of convertible bonds (approximately EUR +15 million)
  - ◆ Repayment of the previous RCF credit facility and bilateral loans (approximately EUR -32 million).

<b>Net sales by service area, EUR million</b>	<b>10-12/ 2022</b>	<b>10-12/ 2021</b>	<b>Change Q4</b>	<b>1-12/ 2022</b>	<b>1-12/ 2021</b>	<b>Change</b>
Housing	67.0	110.7	-39.4%	213.3	254.3	-16.1%
Business Premises	27.7	35.9	-22.8%	131.5	149.8	-12.3%
<b>Total</b>	<b>94.7</b>	<b>146.5</b>	<b>-35.4%</b>	<b>344.8</b>	<b>404.1</b>	<b>-14.7%</b>

## CEO Juuso Hietanen



“For Lehto, 2022 was a year of changes and restructuring. Among other things, we signed a new financing agreement, sold the pipeline renovation business and made several changes to the organization. Right at the end of the financial year, we sold and agreed sales of balance sheet items to strengthen cash flow.

At the beginning of 2022, Lehto was focusing heavily on strengthening its operative functions and implementing measures to improve profitability. During the first half of the year, we focused on stabilising our financial position, and at the end of June we signed a financing agreement that laid the foundation for improved profitability and implementing our revised strategy (which we updated in the spring).

During the second half of the year – and especially in the fourth quarter – interest rates rose and the construction market weakened even further. This was reflected in slow housing sales and delays in customers’ investment decisions, as well as general challenges in obtaining financing in the construction sector. At the end of 2022, a significant number of planned investor projects had not been launched due to a lack of funding, and the start of several business premises projects had been postponed for market-related reasons.

Our operations generated losses in 2022. The main reasons for this were loss-making construction projects for business premises and wooden apartment buildings. Business Premises had five projects that made significant losses (office, hotel or renovation projects), as their sale prices had been fixed even before the final plans had been drawn up. This proved challenging in 2022, when the prices of building materials rose considerably. An operating and pricing model based on fixed prices has proven to be a poor and loss-making option in the long run. It has, therefore, been changed.

However, the performance of old projects is still being reflected in our financial results. Other business premises projects are progressing in accordance with our new strategy and operating model, and are reaching – or even exceeding – their targets. In our new strategy, Business Premises will focus on hall-like structures, in which we are very competitive and highly proficient.

Although our company has historically built wooden apartment buildings with a good profit margin, this business caused losses in 2022. Its profitability challenges are mainly related to the organisational model, project planning and on-site implementation. Modular wooden housing construction is very different to traditional in-situ concrete construction during the design and production phases, and we didn’t take its requirements into sufficient consideration from plot acquisition to construction. We made corrections a year ago, and now have a highly experienced organisation specialising in wooden apartment buildings. In this business, we have traditionally carried out only developer contracted projects for consumers and investors. To ensure more consistent volumes, we have also decided to start contracting. Demand for wooden apartment buildings appears to be good in the current

market – and even better in the future. We also have confidence in the profit-making capacity of our current organisation.

Our concrete housing business is stable and remained profitable in spite of the difficult market situation and the exceptional – and in some cases considerable – price reductions. However, there is still room for improvement in profitability. Although prefabrication and modularity have helped us to be cost-effective, there are still improvements to be made in the efficiency of planning and design. Measures to improve profitability have been successfully implemented in the organisation and the company has also gained a lot of expertise, particularly in the development phase of housing projects, but also in production management. In the current market, we will focus on investors to ensure cash flow and minimise sales risks. As the market improves, we will shift our focus more towards consumers in line with our strategy.

We are now in a challenging market situation. Our goal is to ensure steady cash flow and keep the number of unsold apartments low. In the short term, our cash flow will be supported by the sale of some assets and significant scheduled payments as several projects progress. Steady cash flow will be ensured by the fact that almost 90 per cent of our ongoing housing projects are being built for institutional investors and therefore have no associated sales risks. As the focus of our housing construction has shifted from consumer projects to investor projects, the risks associated with selling housing units have also decreased. We had 73 completed yet unsold units at the turn of the year.

The cost-cutting and efficiency-improving measures that we have implemented will also help to improve profitability. We have implemented a significant number of corrective measures in 2022. We have made structural changes, altered our operating methods, and revised our approach to capital use and strengthening cash flow. Personnel participated in two sets of change negotiations, the results of which have been implemented. We have improved our cost-efficiency by, for example, consolidating our factory production on one factory in Oulainen. We have also agreed to sell another factory property to the City of Oulainen. The company had 664 employees at the end of 2022, which is 36 per cent fewer than a year earlier. Of the reduction in the number of people, 121 people are related to sale of pipeline renovation business.

At the end of January, we announced that the company's current business portfolio was wide taking into consideration the market circumstances and the company's financial position, and that we had started a process to seek industrial or ownership partners. It is possible that the company may arrange its businesses either in whole or in part. We will report on our progress as soon as it is time."

## Outlook for 2023

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 declining net sales is the decreased amount of projects in business premises and housing. The improvement of the operating result is mainly based on the reason that the company has no ongoing or starting projects which would include significant risk of loss.

The most significant risks related to net sales and operating result are the development of sales of apartments and business premises and the availability of financing and guarantees for the construction projects.

# Press conference on the financial statements

Lehto Group will hold a press conference for investors, analysts and the media in Finnish on Wednesday, 15 February 2023 at 10:00 am (EET). The event will only be held online, and you can watch the livestream at [lehto.fi/sijoittajille](https://lehto.fi/sijoittajille). Questions can be asked using the online form. CEO Juuso Hietanen and CFO Veli-Pekka Paloranta will speak at the conference. A recording will be made available at the same address as soon as possible.

## Business environment and business development in 2022

### Development of the business environment

Lehto operates in Finland, and the construction sector is very sensitive to general economic cycles. In December 2022, the Bank of Finland estimated that the Finnish economy would grow by 1.9 per cent in 2022 and enter a mild recession in 2023 with GDP contracting by 0.5 per cent. The cause of this recession is the energy crisis exacerbated by Russia's war of aggression and a rapid rise in the cost of living. The Bank of Finland expects growth to recover in 2024.

In its business cycle review published in October 2022, the Confederation of Finnish Construction Industries RT predicted that construction would grow by 2 per cent in 2022, supported by the existing work backlog and continued good performance in housing construction. In October, the Confederation forecast that construction would decrease by 2 per cent in 2023 due to a contraction in new building construction and infrastructure construction. High inflation and rising interest rates are considered to be two key factors that are hindering construction.

A decrease in building permits also forecasts a contraction in the construction market. According to Statistics Finland, 35 per cent fewer building permits were issued for new construction in September–November 2022, and 20 per cent fewer construction projects were launched in that period than a year earlier.

The prices of building materials rose during 2022, but levelled off – or even decreased – towards the end of the year. According to Statistics Finland, construction costs in December 2022 had increased by 5.3% year-on-year. The greatest increase in annual costs for material inputs was seen in thermal insulation (17.8%) and supplies for heating, water supply and sewerage (17.1%). The prices of some supplies also decreased and, for example, costs for wooden structures were 7.6% less than in the previous year.

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.

In June 2022, Lehto divested its pipeline renovation business, which operated within the Housing service area. Housing's net sales figures have therefore been adjusted with respect to both the reporting and comparison periods.

### ***Business development in 2022***

Demand for housing construction weakened during the year. Consumer confidence remained low throughout the year, and general uncertainty concerning Finland's economic situation rose towards the end of the year. Rising inflation and an increase in interest rates, coupled with increased difficulty in obtaining financing, had a negative impact on demand for housing.

The Housing service area's net sales experienced a year-on-year decrease of 16.1% to EUR 213.3 (254.3) million. Sales volumes of housing units were lower than in the previous year, and noticeably fewer housing projects were started than in the comparison period. A total of 758 housing units were sold during the review period, most of which were built as part of investor projects.

<b>Sold housing units during the review period</b>	<b>1-12/2022</b>	<b>1-12/2021</b>
To investors	497	1,529
To consumers	261	319
<b>Sold housing units during the review period, total</b>	<b>758</b>	<b>1,848</b>

During the period, 1,392 (1,277) housing units were completed and the construction of 586 (1,835) new units was started. The newly started projects were located in the Helsinki Metropolitan Area and Oulu. There were 1,196 (2,002) housing units under construction at the end of the review period.

<b>Housing units under construction</b>	<b>1-12/2022</b>	<b>1-12/2021</b>
Under construction at the beginning of the period	2,002	1,444
+ started up during the period	586	1,835
- completed during the period	-1,392	-1,277
<b>Housing units under construction at period-end</b>	<b>1,196</b>	<b>2,002</b>

At the end of the review period, 254 (456) housing units were either under construction or completed yet unsold. Of these, 73 (26) were completed, unsold apartments. 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.

<b>Unsold housing units</b>	<b>1-12/2022</b>	<b>1-12/2021</b>
Under construction	181	430
Completed	73	26
<b>Unsold housing units, total</b>	<b>254</b>	<b>456</b>

The Housing service area's order backlog stood at EUR 155.6 million at the end of the review period (EUR 242.3 million on 31 December 2021). 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 higher than in the comparison period, as some assisted living units larger than traditional care homes were included in housing construction projects. One (4) care home was completed during the review period. Two (1) assisted living projects were under construction at the end of the period. 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.

Mr Tero Karislahti, 39, was appointed as Executive Vice President of the Housing service area and as a member of Lehto Group's Executive Board as of 10 June 2022. Karislahti has a master's degree in technology and 18 years' experience in a variety of positions in the YIT construction group. Since 2015, Karislahti has been working in management positions in housing construction, including as regional director.

## **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. Lehto updated its strategy for business premises during 2022 and, in line with this, the Business Premises service area will now focus more clearly on the construction of hall-like 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 2022***

The service area's net sales experienced a year-on-year decrease of 12.3% to EUR 131.5 (149.8) million. Net sales declined particularly as a result of terminated project contracts, but also due to Lehto's more selective project selection process than before.

Fourteen business premises projects were completed and handed over during the review period (18 sites in 2021). At the end of the period, 6 (15) projects were under construction, most notably a local service centre in Kivistö, Vantaa; a twin tower in Malmi, Helsinki; and an operating office at the Kemi bioproduct mill.

New orders valued at EUR 35.3 million were signed during the period and the order backlog decreased to EUR 50.3 million (EUR 202.0 million on 31 December 2021). The reduction in the order backlog was mainly due to terminated contracts and the low number of new agreements. In total, Lehto has terminated the contracts or preliminary agreements for six projects. The total value of these projects is about EUR 125 million, of which EUR 73 million had already been entered into the order backlog.

The result for Business Premises was burdened by five projects that are significantly loss-making and are no longer part of Lehto's current strategy. One of these is a complete renovation project, two are hotel projects, and two are office building projects. The losses have arisen from shortcomings in project preparation, problems and delays in project implementation, agreeing on contract prices at an early stage, and increased material costs. Lehto decided to discontinue its renovation business in 2019, and the commitments related to the renovation project in question date from 2019.

Lehto has been developing the Hippos2020 project with the City of Jyväskylä. Lehto and the City of Jyväskylä are still developing the project, even though uncertainties related to the weakening market situation have increased.

Lehto has implemented operational changes to improve project risk management in the Business Premises service area, and mobilised them in practice under the leadership of the service area's new EVP from the beginning of 2022. When evaluating prospective projects, the company pays particular attention to their suitability with respect to the company's resources and strategy.

### **Factory production**

The use of prefabricated products lies at the core of Lehto's business. Lehto manufactures a variety of building modules and elements at its own production facilities, primarily for its own use. Products are also sold in small quantities 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.

Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii, totalling about 50,000 m<sup>2</sup>. At the end of the

review period, 199 people worked in factory operations (253 on 31 December 2021). Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.

In January 2023, Lehto Group Plc's subsidiary Lehto Components Oy signed an agreement with the City of Oulainen, according to which Lehto Components Oy will sell a factory complex to the City of Oulainen. The complex consists of a 10,000m<sup>2</sup> factory building and its warehouses, and the sale price is approximately EUR 4.7 million. The closing of the transaction will be subject to the fulfilment of standard terms and conditions, and cannot be completed until the Oulainen City Council's decision comes into force. If concluded, the divestment will have a minor positive impact on Lehto's operating result for 2023 and a positive impact of about EUR 4.5 million on cash flow. The sale of the factory complex had not yet been completed when this release was published.

## Balance sheet and financial position

Consolidated balance sheet, EUR million	31 Dec 2022	31 Dec 2021
Non-current assets	27.7	49.2
Current assets		
Inventories, excluding IFRS 16 assets	101.2	108.3
Inventories, IFRS 16 assets	70.9	86.6
Current receivables	50.4	78.3
Cash and cash equivalents	13.2	32.8
Non-current assets held for sale	3.8	0.0
<b>Total assets</b>	<b>267.2</b>	<b>355.1</b>
Equity	66.6	90.9
Financial liabilities	33.9	45.8
Lease liabilities	77.8	90.4
Liabilities to customers for constructing contracts (advances received)	20.6	20.5
Other payables	68.4	107.4
<b>Total equity and liabilities</b>	<b>267.2</b>	<b>355.1</b>

The balance sheet total declined to EUR 267.2 (355.1) million. The key figures for financial standing and indebtedness weakened during the year, as shareholders' equity and cash and cash equivalents decreased due to the loss-making result. Cash and cash equivalents were also weakened by loan repayments of EUR 38.3 million. The equity ratio (taking lease liabilities into consideration) stood at 27.0% (27.2%) and the net gearing ratio was 147.9% (113.8% on 31 December 2021). The equity ratio without the lease liabilities under IFRS 16 stood at 38.7% (37.3%) and the net gearing ratio was 31.0% (14.4%).

## Assets

Non-current assets amounted to EUR 27.7 (49.2) million at the end of the review period. This decrease was largely due to a EUR 12.8 million reduction in the value of deferred tax assets. Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 2.9 (3.9) million in machinery and equipment, and EUR 9.9 (11.4) million in factory buildings, of which EUR 3.7 million were non-current assets held for sale.

Inventories fell to EUR 172.1 (194.9) million, mainly due to a EUR 15.7 million decrease in inventories in accordance with IFRS 16.

Current receivables declined to EUR 50.4 (78.3) million and included trade receivables of EUR 21.8 (39.7) million and percentage-of-completion receivables of EUR 24.4 (36.6) million.

Cash and cash equivalents totalled EUR 13.2 million on 31 December 2022 (EUR 32.8 million on 31 December 2021).

## Equity and liabilities

As a consequence of the loss for the financial year, shareholders' equity fell to EUR 66.6 (90.9) million during the period. In addition to loss-making operations, the result for the financial year was weakened by a EUR 12.8 million reduction in the value of deferred tax assets. It was improved by capital gains from the divestment of the pipeline renovation business (EUR +30.9 million after expenses incurred by the sale).

Financial liabilities excluding lease liabilities declined to EUR 33.9 million during the review period (EUR 45.8 million on 31 December 2021). The table below presents a breakdown of interest-bearing liabilities at the balance sheet date:

Interest-bearing liabilities	31 Dec 2022	31 Dec 2021
Revolving credit facility (RCF)	13.0	25.1
Convertible bond	15.0	
from which expenses adjusted and the equity component separated	-3.3	
Project-specific loans	0.0	3.2
RS loans related to unsold apartments in developer contracted housing projects	9.2	7.4
Investment loans	0.0	4.8
VAT payment arrangement	0.0	5.3
<b>Financial liabilities, total</b>	<b>33.9</b>	<b>45.8</b>
IFRS 16 lease liabilities	77.8	90.4
<b>Interest-bearing liabilities, total</b>	<b>111.7</b>	<b>136.3</b>

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 that are under construction; they are Lehto obligations for as long as the project under construction is under Lehto's control.

Liabilities based on customer contracts (advances received) remained at the same level as on the 2021 balance sheet date: EUR 20.6 (20.5) 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 58.0 (85.0) million. They include liabilities related to ordinary business operations, such as EUR 24.8 (46.0) million in trade payables and EUR 9.6 (8.1) million in VAT liabilities.

<b>Cash flow statement, EUR million</b>	<b>1-12/2022</b>	<b>1-12/2021</b>
Cash flow from operating activities		
Result for the period + adjustments to accrual-based items	-49.2	-14.9
Change in net working capital	15.5	-25.6
<b>Total cash flow from operating activities</b>	<b>-33.7</b>	<b>-40.5</b>
Cash flow from investments	27.8	-0.7
Cash flow from financing	-13.6	-31.1
<b>Change in cash and cash equivalents</b>	<b>-19.5</b>	<b>-72.3</b>
Cash and cash equivalents at the beginning of the period	32.8	105.1
Cash and cash equivalents at the end of the period	13.2	32.8

Net cash flow from operating activities was EUR -33.7 (-40.5) million, which includes a positive impact of EUR 15.5 (-25.6) 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 27.8 (-0.7) million, of which EUR 28.7 million resulted from the divestment of the pipeline renovation business. Net cash flow from investments was EUR -0.4 (-0.4) million, of which EUR -0.4 million relates to tangible assets (mainly replacement investments) and EUR -0.4 (-0.8) million to intangible assets.

Net cash flow from financing was EUR -13.6 (-31.1) million. A new RCF revolving credit facility of EUR 13 million and a EUR 15 million convertible bond were drawn during 2022. A total of EUR 38.3 (28.7) million in loans was repaid, including the repayment of the previous EUR 25.1 million RCF revolving credit facility, EUR 5.3 million in VAT liabilities as part of a payment arrangement with the Tax Administration and EUR 7.9 million in loans from other financial institutions.

<b>Financial position, EUR million</b>	<b>Excl. IFRS 16 lease liabilities</b>			<b>Incl. IFRS 16 lease liabilities</b>		
	<b>31 Dec 2022</b>	<b>31 Dec 2021</b>	<b>Change</b>	<b>31 Dec 2022</b>	<b>31 Dec 2021</b>	<b>Change</b>
Cash and liquid assets	13.2	32.8	-19.5	13.2	32.8	-19.5
Interest-bearing liabilities	33.9	45.8	-12.0	108.3	136.3	-27.9
Interest-bearing net debt	20.6	13.1	7.6	95.1	103.5	-8.4
Equity ratio, %	38.7%	37.3%	1.4%	27.0%	27.2%	-0.2%
Net gearing ratio, %	31.0%	14.4%	16.6%	147.9%	113.8%	34.1%

## Key financing agreements

### *Revolving credit facility (RCF)*

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

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

### *Convertible bond*

On 30 June 2022, Lehto offered the first tranche of its unsecured convertible bonds due June 2027 for subscription by institutional and other qualified investors. The convertible bonds are convertible into new and/or existing shares in Lehto and were issued in an aggregate principal amount of EUR 15 million.

In accordance with its undertaking announced on 29 June 2022, the biggest shareholder of the company, Lehto Invest Oy, subscribed for convertible bonds for an amount of EUR 8.0 million in connection with the convertible bonds' first tranche issue, and an additional subscription of EUR 2.0 million was announced on 29 September 2022.

The 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.

### *VAT payment arrangement*

In July 2020, Lehto made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 21.0 million. The last instalment was paid on August 2022, at which time the arrangement was also concluded.

## Continuity of operations

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

During the next 12 months, the following factors are considered to particularly affect the adequacy of the treasury:

- ◆ General development of the Finnish economy and construction market
- ◆ The profitability of the company's projects
- ◆ The company's ability to adjust its fixed costs
- ◆ Obtaining financing and the necessary guarantees for projects
- ◆ Timing and sale prices of the company's balance sheet assets

- ♦ Progress in structural and proprietary arrangements
- ♦ The company's ability to stay within the terms of the key financing agreement.

The company has prepared both profit and cash scenarios, in which the aforementioned factors have been taken into account and their probabilities have been assessed. As a conclusion of the evaluation, the company's management and board of directors have stated that there are no such uncertainty factors related to the company's operations that would give significant reason to doubt the company's ability to continue its operations and cope with its payments during the next 12 months.

## Personnel and remuneration

The average number of Group personnel during the review period was 860 (1,043 in 2021). The number of personnel at period-end was 664 (1,042 on 31 December 2021). About 52% of the Group's personnel are salaried employees and about 42% work at construction sites.

In March 2022, on the basis of an authorization granted by the Annual General Meeting of 28 May 2021, the company carried out a directed bonus issue of 151,842 shares in order to implement a share-based incentive scheme for personnel.

## Research and development

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

The development of modules, components and space concepts is part of continuing operations, and the related costs are largely recorded as an expense in the income statement. Capitalised development expenditure during the financial year amounted to EUR 0.4 (0.7) million. The most significant development outlays concern the design of industrially manufactured products and the development of product factory operations.

## 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](http://www.lehto.fi).

## **Key risks during 2023**

The prices of numerous building materials increased sharply and the availability of certain materials weakened in 2022. This applies to wood, processed wood, concrete elements, insulation and technical building components in particular. It is possible that prices will remain high or continue to rise, and there may also be problems with the availability of materials used in the manufacture of Lehto's prefabricated elements. The realisation of these

risks could have a significant impact on Lehto's full-year net sales and operating result for 2023. In order to eliminate such risks, Lehto engages in continuous dialogue with its suppliers and assesses the potential for using substitute materials or components in its projects.

Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks. The coronavirus pandemic and war in Ukraine have caused general uncertainty in the customer and financing markets, which may cause demand for housing to weaken, and sales prices may have to be lowered to promote sales. It is still possible that uncertainty will cause business premises customers to delay their investment decisions.

In recent years, it has been more difficult to obtain debt financing and guarantees for construction projects. 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.

The increase in inflation that started in 2022 and the significant rise in interest rates have particularly affected investor demand. The continuation of interest rates at a high level or a further rise in interest rates can further weaken the demand for both apartments and business premises.

Lehto is currently working on both contracts and developer contracted projects in both the Housing and Business Premises service areas. Net sales and operating profit will be affected by the accuracy of project cost estimates, progress in selling these projects and exactly when they are sold.

## **Impacts of the coronavirus situation and war in Ukraine**

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

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

Due to market uncertainty, Lehto has reduced the volume of developer-contracted housing and business premises construction. The company is very selective in starting up new developer contracting projects.

## **Resolutions of the Annual General Meeting**

In accordance with the proposal of the Board of Directors, the Annual General Meeting (AGM) of 2 May 2022 decided that no dividend will be paid for the financial year ending on 31 December 2021.

The AGM confirmed the number of Board members to be five. Pursuant to the proposal made by the shareholders' nomination committee, Anne Korkiakoski, Helena Säteri, Jani Nokkanen and Hannu Lehto were



re-elected as members of the Board of Directors. Eero Sihvonen was elected as a new Board member. Hannu Lehto was elected Chairman of the Board of Directors. The term of the Board members will expire at the end of the Annual General Meeting 2023. The above-mentioned and other decisions of the Annual General Meeting were disclosed in a stock exchange release on 2 May 2022.

At his own request, Hannu Lehto transferred from the position of Chair to Member of the Board of Directors on 5 December 2022. The Board of Directors elected Eero Sihvonen as the new Chair from among its members.

## Shares and shareholdings

Lehto Group Plc is listed on the official list of Nasdaq Helsinki Ltd. The number of shares at the end of December was 87,339,410 and the company had 16,886 shareholders. The company holds 28,123 of its own shares. The company has one share series and each share entitles its holder to one vote at the General Meeting of Shareholders.

The closing price of the share on the main list of Nasdaq Helsinki Ltd on 31 December 2022 was EUR 0.172. The share's highest rate during the review period was EUR 0.944 and its lowest rate was EUR 0.167. A total of 45,210,912 shares in the company were traded during the period with a trading value of approximately EUR 23 million.

Lehto's Annual General Meeting of 2 May 2022 authorised the Board to decide on the purchase of a maximum of 8,733,000 of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company.

The AGM also decided to authorise the Board of Directors to decide on the issue of a maximum of 40,000,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a cogent financial reason for it from the point of view of the company or, in case of a bonus issue, a particularly cogent financial reason from the point of view of the company and the benefit of all its shareholders. The Board of Directors decides on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares.

Among other things, the authorisation can be used to organise the financing arrangement with equity elements, to develop capital structure, to expand the ownership base, to implement incentive systems, and as a consideration in acquisitions and transactions when the company purchases assets linked to its operations. The authorisation is valid until 30 June 2023 and replaces the company's previous share issue and option authorisations.

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

# Other significant events during the review period

The following is a list of stock exchange releases published by the company in 2022:

**28 January 2022:** Lehto announced that the estimated unaudited operating result for 2021 would be approximately EUR -24 million.

**17 February 2022:** financial statement bulletin for 2021.

**10 March 2022:** publication of the 2021 Annual Report.

**11 March 2022:** Lehto announced that the company would continue financing negotiations with its financier banks.

**24 March 2022:** Lehto launched change negotiations to improve operational efficiency and reduce cost pressures caused by increased construction costs.

**25 March 2022:** transfer of treasury shares to implement the incentive plan.

**11 April 2022:** Lehto announced that it is planning an equity-linked financing arrangement of approximately EUR 15 million.

**28 April 2022:** Lehto announced the divestment of its pipeline renovation business.

**28 April 2022:** Lehto lowered its financial guidance for continuing operations.

**28 April 2022:** publication of the Business Review for January–March.

**28 April 2022:** Lehto announced that it will implement operational measures to improve profitability and prepare a financing package to implement its updated strategy.

**28 April 2022:** Lehto's updated strategy and financial objectives for 2022–2026 was announced.

**2 May 2022:** resolutions of the 2022 Annual General Meeting and the Board of Directors' organisational meeting.

**20 May 2022:** Lehto announced that the company had agreed on an approximately EUR 50 million financing package with the banks.

**3 June 2022:** Jani Pentti was appointed Vice President, Human Resources.

**14 June 2022:** the divestment of its pipeline renovation business had been completed.

**20 June 2022:** Lehto told that the company had terminated its agreements with the City of Vantaa for the construction of a multi-space office building in Tikkurila.

**29 June 2022:** Lehto announced that the company will offer an unsecured convertible bond of up to EUR 15 million, maturing in 2027.

**30 June 2022:** the new financing agreement came into force.

**1 July 2022:** the final terms and conditions of the unsecured convertible bond maturing in June 2027 were published.

**4 August 2022:** Half-year Financial Report for January–June.

**29 September 2022:** Lehto announced that it will issue a second tranche of the convertible bond maturing in June 2027, and suspend the bond's subscription period.

**4 October 2022:** Lehto announced that the company is preparing for the deteriorating market outlook for the construction industry by initiating adjustment measures. As part of these measures, Lehto launched change negotiations.

**27 October 2022:** Business Review for January–September.

**8 November 2022:** change negotiations were concluded with an impact of approximately 90 person-work-years.

**5 December 2022:** At his own request, Hannu Lehto transferred from the position of Chair to Member of the Board of Directors. Eero Sihvonen was elected as the new Chair.

**15 December 2022:** Lehto announced the dates for its financial reviews in 2023.

**15 December 2022:** the company announced that its net sales and operating result for 2022 would decrease more than expected.

## Events after the review period

**9 January 2023:** Lehto announced that it will sell one of its factory buildings in Oulainen for EUR 4.7 million. The closing of the transaction will be subject to the fulfilment of standard terms and conditions, and cannot be completed until the Oulainen City Council's decision comes into force. The transaction had not yet been completed when this release was published.

**30 January 2023:** Lehto announced that the operating result for 2022 would be lower than previously estimated.

**30 January 2023:** Lehto announced the launch of negotiations on structural and ownership arrangements.

**1 February 2023:** the company published a proposal made by the Shareholders Nomination Committee on the composition and remuneration of the Board of Directors. The proposal will be presented to the Annual General Meeting scheduled for 30 March 2023.

## Board proposal for the use of the result shown on the balance sheet and for deciding on payment of dividends

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

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

**Vantaa, 14 February 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.

<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR MILLION</b>	<b>7-12/ 2022</b>	<b>7-12/ 2021 <sup>1)</sup></b>	<b>1-12/ 2022</b>	<b>1-12/ 2021 <sup>1)</sup></b>
<b>Net sales</b>	180.9	220.9	344.8	404.1
Other operating income	0.8	0.1	1.1	0.4
Changes in inventories	-24.5	-15.5	-5.8	-6.9
Material and services	-146.5	-191.4	-312.1	-347.0
Employee benefit expenses	-20.2	-28.1	-48.8	-56.1
Depreciation and amortisation	-3.0	-3.4	-5.9	-7.0
Other operating expenses	-8.1	-7.8	-15.5	-15.9
<b>Operating result</b>	<b>-20.7</b>	<b>-25.1</b>	<b>-42.2</b>	<b>-28.3</b>
Financial income	0.0	0.1	0.0	0.1
Financial expenses	-2.0	-1.5	-3.4	-2.9
<b>Result before taxes</b>	<b>-22.7</b>	<b>-26.6</b>	<b>-45.5</b>	<b>-31.1</b>
Income taxes	-12.6	1.3	-13.3	1.2
<b>Result from continuing operations</b>	<b>-35.3</b>	<b>-25.3</b>	<b>-58.8</b>	<b>-29.9</b>
Result from discontinued operations	-0.5	-3.0	32.1	-2.7
<b>Result for the period</b>	<b>-35.8</b>	<b>-28.2</b>	<b>-26.7</b>	<b>-32.6</b>
<b>Result attributable to</b>				
Equity holders of the parent company	-35.8	-28.2	-26.7	-32.6
Non-controlling interest	0.0	0.0	0.0	0.0
	<b>-35.8</b>	<b>-28.2</b>	<b>-26.7</b>	<b>-32.6</b>
<b>Components of other comprehensive income</b>				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Translation difference	0.0	0.0	0.0	0.0
	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Comprehensive result, total</b>	<b>-35.7</b>	<b>-28.2</b>	<b>-26.6</b>	<b>-32.6</b>
<b>Comprehensive result attributable to</b>				
Equity holders of the parent company	-35.7	-28.2	-26.6	-32.6
Non-controlling interest	0.0	0.0	0.0	0.0
	<b>-35.7</b>	<b>-28.2</b>	<b>-26.6</b>	<b>-32.6</b>

<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR MILLION</b>	<b>7-12/ 2022</b>	<b>7-12/ 2021 <sup>1)</sup></b>	<b>1-12/ 2022</b>	<b>1-12/ 2021 <sup>1)</sup></b>
<b>Earnings per share calculated from the result attributable to shareholders of the parent company, EUR per share</b>				
Average number of (issue-adjusted) outstanding shares during the period, basic	87,311,287	87,159,445	87,276,343	87,142,297
Average number of (issue-adjusted) outstanding shares during the period, diluted	87,458,568	87,425,122	87,433,926	87,447,100
Earnings per share from continuing operations, basic	-0.40	-0.29	-0.67	-0.34
Earnings per share from continuing operations, diluted	-0.40	-0.29	-0.67	-0.34
Earnings per share from discontinued operations, basic	-0.01	-0.03	0.37	-0.03
Earnings per share from discontinued operations, diluted	-0.01	-0.03	0.37	-0.03
Earnings per share, basic	-0.41	-0.32	-0.31	-0.37
Earnings per share, diluted	-0.41	-0.32	-0.31	-0.37

<sup>1)</sup> 2021 is restated according to pipeline operations as discontinued operations.

**CONSOLIDATED BALANCE SHEET, EUR MILLION**
**2022/12/31**
**2021/12/31**

<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	4.6	4.6
Other intangible assets	1.4	2.0
Property, plant and equipment	13.6	19.2
Investment properties	0.7	0.7
Investments and receivables	7.4	8.9
Deferred tax assets	0.0	13.8
<i>Non-current assets total</i>	<i>27.7</i>	<i>49.2</i>
<b>Current assets</b>		
Inventories	172.1	194.9
Trade and other receivables	50.4	78.3
Cash and cash equivalents	13.2	32.8
<i>Current assets total</i>	<i>235.7</i>	<i>305.9</i>
Non-current assets held for sale	3.8	
<b>Assets, total</b>	<b>267.2</b>	<b>355.1</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	0.1	0.1
Invested non-restricted equity reserve	88.7	88.7
Translation difference	-0.2	-0.3
Retained earnings	4.6	35.0
Result for the financial period	-26.7	-32.6
Equity attributable to shareholders of the parent company	66.6	90.9
Non-controlling interest	0.0	0.0
<i>Equity total</i>	<i>66.6</i>	<i>90.9</i>
<b>Non-current liabilities</b>		
Deferred tax liabilities	0.0	0.2
Non-current provisions	5.9	6.0
Financial liabilities	11.7	3.1
Lease liabilities	68.4	88.2
Other non-current liabilities	0.2	0.1
<i>Non-current liabilities total</i>	<i>86.2</i>	<i>97.6</i>
<b>Current liabilities</b>		
Current provisions	7.6	16.0
Financial liabilities	22.2	42.7
Lease liabilities	9.4	2.3
Liabilities to customers for constructing contracts (advances received)	20.6	20.5
Trade and other payables	54.6	85.0
<i>Current liabilities total</i>	<i>114.5</i>	<i>166.6</i>
Liabilities total	200.7	264.2
<b>Equity and liabilities, total</b>	<b>267.2</b>	<b>355.1</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, EUR MILLION**

	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY					Non-controlling interest	Equity, total
	Share capital	Invested non-restricted equity reserve	Translation difference	Retained earnings	Total		
<b>Equity at 1 Jan 2021</b>	<b>0.1</b>	<b>88.7</b>	<b>-0.3</b>	<b>35.1</b>	<b>123.6</b>	<b>0.0</b>	<b>123.6</b>
<b>Comprehensive income</b>							
Result for the financial period			0.0	-32.6	<b>-32.6</b>	0.0	<b>-32.6</b>
<b>Total comprehensive income</b>			<b>0.0</b>	<b>-32.6</b>	<b>-32.6</b>	<b>0.0</b>	<b>-32.6</b>
<b>Transactions with equity holders</b>							
Share-based compensation				-0.1	<b>-0.1</b>		<b>-0.1</b>
<b>Transactions with equity holders, total</b>				<b>-0.1</b>	<b>-0.1</b>		<b>-0.1</b>
<b>Equity at 31 Dec 2021</b>	<b>0.1</b>	<b>88.7</b>	<b>-0.3</b>	<b>2.4</b>	<b>90.9</b>	<b>0.0</b>	<b>90.9</b>
<b>Equity at 1 Jan 2022</b>							
<b>Equity at 1 Jan 2022</b>	<b>0.1</b>	<b>88.7</b>	<b>-0.3</b>	<b>2.4</b>	<b>90.9</b>	<b>0.0</b>	<b>90.9</b>
<b>Comprehensive income</b>							
Result for the financial period			0.0	-26.7	<b>-26.6</b>	0.0	<b>-26.6</b>
<b>Total comprehensive income</b>			<b>0.0</b>	<b>-26.7</b>	<b>-26.6</b>	<b>0.0</b>	<b>-26.6</b>
<b>Transactions with equity holders</b>							
The equity component separated from the convertible bond				2.2	<b>2.2</b>		<b>2.2</b>
Share-based compensation				0.0	<b>0.0</b>		<b>0.0</b>
<b>Transactions with equity holders, total</b>				<b>2.3</b>	<b>2.3</b>		<b>2.3</b>
<b>Equity at 31 Dec 2022</b>	<b>0.1</b>	<b>88.7</b>	<b>-0.2</b>	<b>-22.0</b>	<b>66.6</b>	<b>0.0</b>	<b>66.6</b>

**CONSOLIDATED CASH FLOW STATEMENT, EUR MILLION**
**1-12/2022**
**1-12/2021**
**Cash flow from operating activities**

Result for the financial period -26.7 -32.6

**Adjustments:**

Non-cash items -8.3 9.4

Depreciation and amortisation 5.9 8.8

Financial income and expenses 3.3 3.3

Capital gains -31.6 0.0

Income taxes 13.7 1.5

**Changes in working capital:**

Change in trade and other receivables 25.6 -4.5

Change in inventories 8.9 0.4

Change in trade and other payables -19.0 -21.5

Interest paid and other financial expenses -5.4 -5.4

Financial income received 0.1 0.1

Income taxes paid -0.3 0.0

**Net cash from operating activities -33.7 -40.5**
**Cash flow from investments**

Investment in property, plant and equipment -0.4 -0.4

Investment in other intangible assets -0.4 -0.8

Sale of discontinued operations (less cash at the time of sale) 28.7

Financial assets at fair value through profit or loss -0.2 0.0

Loans granted 0.0 -0.3

Repayments of loan receivables 0.0 0.7

**Net cash from investments 27.8 -0.7**
**Cash flow from financing**

Loans drawn 28.0 0.0

Loans repaid -38.3 -28.7

Lease liabilities paid -2.2 -2.4

Costs related to paid share issue -1.1

**Net cash used in financing activities -13.6 -31.1**
**Change in cash and cash equivalents (+/-) -19.5 -72.3**

Cash and cash equivalents at the beginning of the year 32.8 105.1

Effects of exchange rate change -0.1 0.0

Cash and cash equivalents at the end of the period 13.2 32.8



KEY FIGURES	7-12/2022	7-12/2021 <sup>1)</sup>	1-12/2022	1-12/2021 <sup>1)</sup>
Net sales, EUR million	180.9	220.9	344.8	404.1
Net sales, change %	-18.1%	-20.3%	-14.7%	-21.8%
Operating result, EUR million	-20.7	-25.1	-42.2	-28.3
Operating result, as % of net sales	-11.4%	-11.4%	-12.2%	-7.0%
Result for the period, EUR million	-35.8	-28.2	-26.7	-32.6
Result for the period, as % of net sales	-19.8%	-12.8%	-7.7%	-8.1%
Equity ratio, %			27.0%	27.2%
Gearing, %			107.7%	100.6%
Net gearing ratio, %			147.9%	113.8%
Return on equity, ROE, %			-33.8%	-30.4%
Return on investment, ROI, %			-20.8%	-12.1%
Order backlog, EUR million			205.9	444.2
Personnel during the period, average			860	1 043
Personnel at the end of period			664	1 042
Gross expenditure on assets, EUR million			0.8	1.2
Equity / share, EUR			0.76	1.04
Earnings per share, basic	-0.41	-0.32	-0.31	-0.37
Earnings per share, diluted	-0.41	-0.32	-0.31	-0.37
Average number of (issue-adjusted) outstanding shares during the period, basic	87,240,819	87,159,445	87,276,343	87,142,297
Average number of (issue-adjusted) outstanding shares during the period, diluted	87,440,750	87,423,394	87,433,926	87,447,100
Number of (issue-adjusted) outstanding shares at the end of the period	87,311,287	87,159,445	87,311,287	87,159,445
Market value of share at the end of period, EUR million			15.0	75.0
Share prices, EUR				
Highest price, EUR			0.94	2.31
Lowest price, EUR			0.17	0.72
Average price, EUR			0.51	1.35
Price at the end of period, EUR			0.17	0.86
Share turnover, shares			45,210,912	68,750,986
Share turnover out of average number of shares, %			51.8%	78.9%
Dividend / share, EUR <sup>2)</sup>			-	-
Dividend payout ratio, % <sup>2)</sup>			-	-
Effective dividend yield % <sup>2)</sup>			-	-
Price / Earnings			-0.56	-2.30

<sup>1)</sup> Restated according to Pipeline renovation operations as discontinued operations

<sup>2)</sup> For year 2022 dividend proposal

## Discontinued operations and non-current assets held for sale

### Discontinued operations

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

In comparison year 2021 Lehto discontinued business in Sweden which is also presented in discontinued operations. The Group's balance sheet on Dec 31, 2022 includes current assets of EUR 0.4 million, a restructuring provision of EUR 0.1 million and liabilities of EUR 0.0 million.

<b>Result for the financial year from discontinued operations</b>	<b>2022</b>	<b>2021</b>
Net sales	17.4	31.8
Other operating income	0.1	0.1
Expenses	-15.8	-29.6
Depreciation and impairment	0.0	-1.9
<b>Operating result</b>	<b>1.7</b>	<b>0.4</b>
Financial items	0.0	-0.4
Taxes	-0.4	-2.6
<b>Result for the financial year</b>	<b>1.3</b>	<b>-2.7</b>
Gain on sale of discontinued operations	31.5	0.0
Costs related to sale of discontinued operations	-0.6	0.0
<b>Result for the financial year from discontinued operations</b>	<b>32.1</b>	<b>-2.7</b>
Earnings per share, discontinued operations, basic, EUR/share	0.01	-0.03
Earnings per share, discontinued operations, diluted, EUR/share	0.01	-0.03

<b>Effect of disposal of financial position of the Group</b>	<b>2022</b>
Non-current assets	-0.0
Inventories	-0.1
Trade and other receivables	-3.9
Cash and cash equivalents	-2.8
Current liabilities	6.8
<b>Net assets and liabilities</b>	<b>-0.0</b>
Consideration received from sale of discontinued operations	31.5
Cash and cash equivalents disposed of	-2.8
<b>Net cash flow</b>	<b>28.7</b>

<b>Cash flow from discontinued operations</b>	<b>2022</b>	<b>2021</b>
Net cash from operating activities	2.8	0.4
Net cash from investments	28.7	-0.0
Net cash used in financing activities	0.0	0.0
<b>Total</b>	<b>31.5</b>	<b>0.4</b>

### **Non-current assets held for sale**

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

<b>LIABILITIES AND GUARANTEES, EUR MILLION</b>	<b>2022/12/31</b>	<b>2021/12/31</b>
<b>Loans covered by pledges on assets</b>		
Loans from financial institutions	13.0	4.7
Debts on shares in unsold housing and real estate company shares	9.2	7.4
<b>Total</b>	<b>22.2</b>	<b>12.0</b>
<b>Guarantees</b>		
Company mortgages	135.2	0.0
Real-estate mortgages	213.5	9.4
Pledges	13.3	7.7
Absolute guarantees	0.2	0.3
<b>Total</b>	<b>227.0</b>	<b>17.4</b>
<b>Contract guarantees</b>		
Production guarantees	27.2	61.8
Warranty guarantees	15.6	18.0
RS guarantees	20.2	21.9
Payment guarantees	2.4	1.6
<b>Total</b>	<b>65.3</b>	<b>103.3</b>
<b>Contract guarantees</b>		
Production guarantees	1.5	1.9

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

<b>REVENUE ANALYSIS, EUR MILLION</b>	<b>7-12/2022</b>	<b>7-12/2021</b>	<b>1-12/2022</b>	<b>1-12/2021</b>
Revenue recognised over time	133.2	173.8	270.0	301.3
Revenue recognised upon delivery	47.5	46.7	74.6	102.1
Rental income	0.2	0.4	0.3	0.7
<b>Total</b>	<b>180.9</b>	<b>220.9</b>	<b>344.8</b>	<b>404.1</b>

## 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. The Group didn't have any transactions with associated companies and joint ventures.

### *Transactions with related parties*

<b>EUR MILLION</b>	<b>Sales 1-12/2022</b>	<b>Sales 1-12/2021</b>	<b>Purchases 1-12/2022</b>	<b>Purchases 1-12/2021</b>
Key personnel and their controlled entities	5.2	36.7	9.1	7.4
<b>Total</b>	<b>5.2</b>	<b>36.7</b>	<b>9.1</b>	<b>7.4</b>

<b>MEUR</b>	<b>Receivables 2022/12/31</b>	<b>Receivables 2021/12/31</b>	<b>Liabilities 2022/12/31</b>	<b>Liabilities 2021/12/31</b>
Key personnel and their controlled entities	0.7	5.1	0.2	0.8
<b>Total</b>	<b>0.7</b>	<b>5.1</b>	<b>0.2</b>	<b>0.8</b>

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.

# LEHTO

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