LEHTO

Q3 23

Business Review January-September 2023

Operating result without impairment on previous year's level, letter of intent regarding the sale of business operations signed

The letter of intent appears in the key figures of the business review

- Lehto announced on 24 October that that it has signed a letter of intent concerning the sale of its operative subsidiaries.
- The proposed transaction comprises in practice all of the business operations of Lehto Group. All contracts, assets, liabilities, responsibilities, resources and personnel of the companies that are the subject of the transaction will be transferred along with the shareholdings.

In Business Review for January-September, financial information is presented for the operations for sale and continuing operations separately and together with previous periods for comparability.

January-September 2023 in brief

- **Net sales** from operations for sale and continuing operations were down 38.2% and amounted to EUR 154.5 (250.1) 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 operations for sale and continuing operations without impairment improved slightly and was EUR -23.4 (-27.9) 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 325 (1,662) **units under construction**, which all are related to projects for institutional investors.
- **Cash and cash equivalents** including cash from assets held for sale totalled EUR 7.5 million at the end of the review period (EUR 13.2 million on 31 December 2022). In addition to this, the company had EUR 2.2 million pledged cash deposits as collateral for the credit facility signed on June 30, 2022.
- **Interest-bearing liabilities** including interest-bearing liabilities from liabilities held for sale but excluding IFRS 16 lease liabilities amounted to EUR 22.6 million (EUR 33.9 million on 31 December 2022).
- **The order backlog** declined to EUR 90.9 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 from operations for sale and continuing operations, total (EUR million)

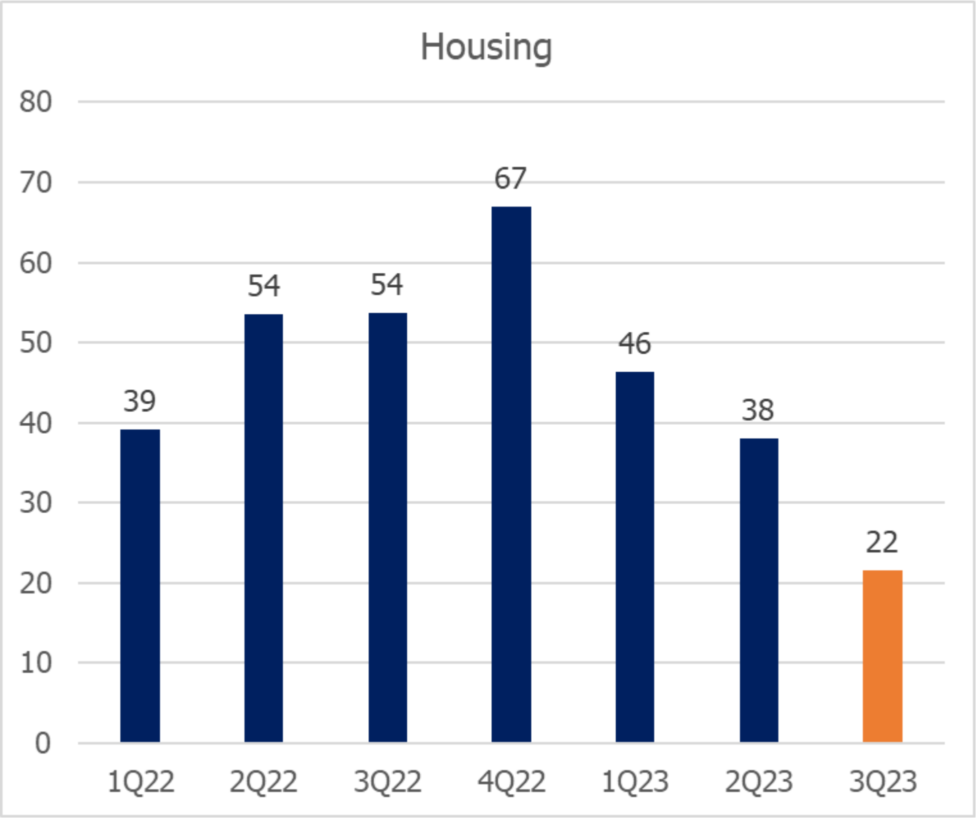
Service area	7-9/2023	7-9/2022	Change Q3	1-9/2023	1-9/2022	Change	1-12/2022
Housing	21.5	53.6	-59.9%	105.8	146.3	-27.7%	213.3
Business Premises	18.4	32.5	-43.5%	48.7	103.7	-53.1%	131.5
TOTAL	**39.9**	**86.1**	**-53.7 %**	**154.5**	**250.1**	**-38.2%**	**344.8**

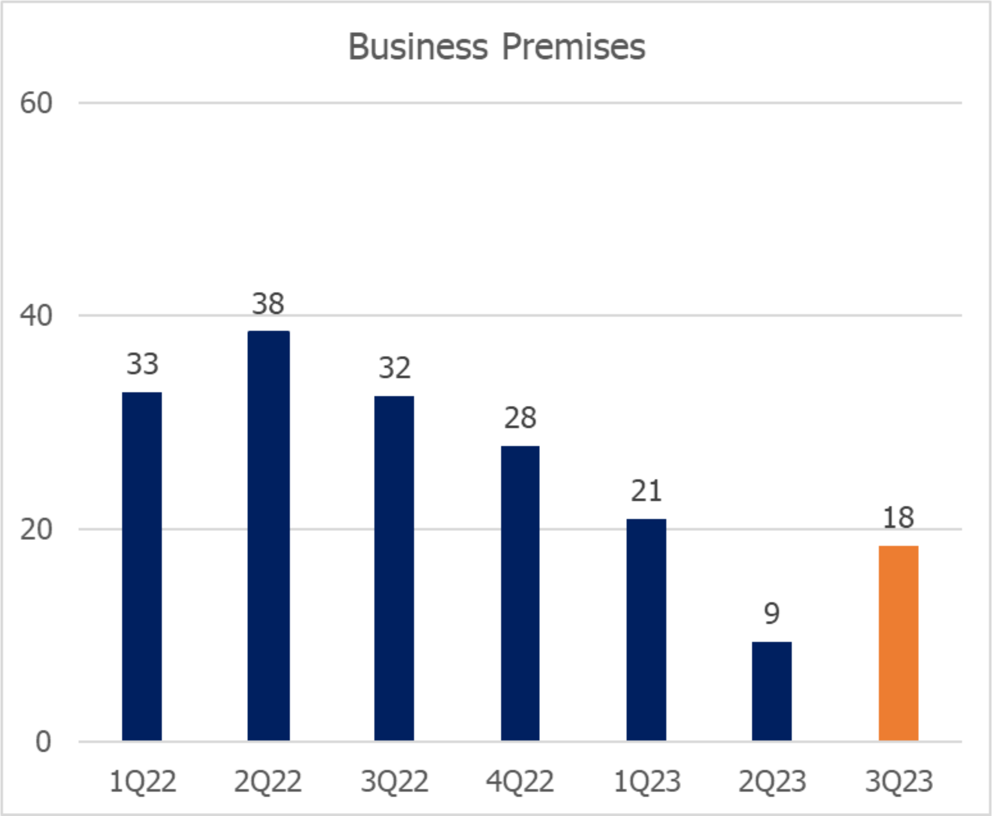
Consolidated statement of income Reconciliation

The table below shows the official consolidated income statement as a reconciliation statement, which shows the impact of the operations intended for sale on the consolidated profit, including the total impairment of assets of 33.5 million euros.

	1-9/2023			1-12/2022		
EUR million	Operations for sale and continuing	Operations for sale	Continuing operations	Operations for sale and continuing	Operations for sale	Continuing operations
Net sales	**154.5**	**154.5**	**0.0**	**344.8**	**344.5**	**0.3**
Other operating income and expenses	-177.9	-177.2	-0.8	-387.0	-385.9	-1.1
Operating result	**-23.4**	**-22.7**	**-0.7**	**-42.2**	**-41.4**	**-0.8**
Financial incomes and expenses	-4.3	-1.7	-2.6	-3.3	-1.4	-2.0
Result before taxes	**-27.8**	**-24.4**	**-3.3**	**-45.5**	**-42.8**	**-2.7**
Income taxes	-0.1	-0.2	0.1	-13.3	-7.8	-5.5
Result from continuing operations	**-27.9**	**-24.6**	**-3.2**	**-58.8**	**-50.5**	**-8.3**
Impairment from assets held for sale	-33.5	-33.5	0.0			
Result from earlier discontinued operations	-0.1		-0.1	32.1		32.1
Result for the period	**-61.4**	**-58.1**	**-3.3**	**-26.7**	**-50.5**	**23.9**

Net sales by quarter and service area, EUR million

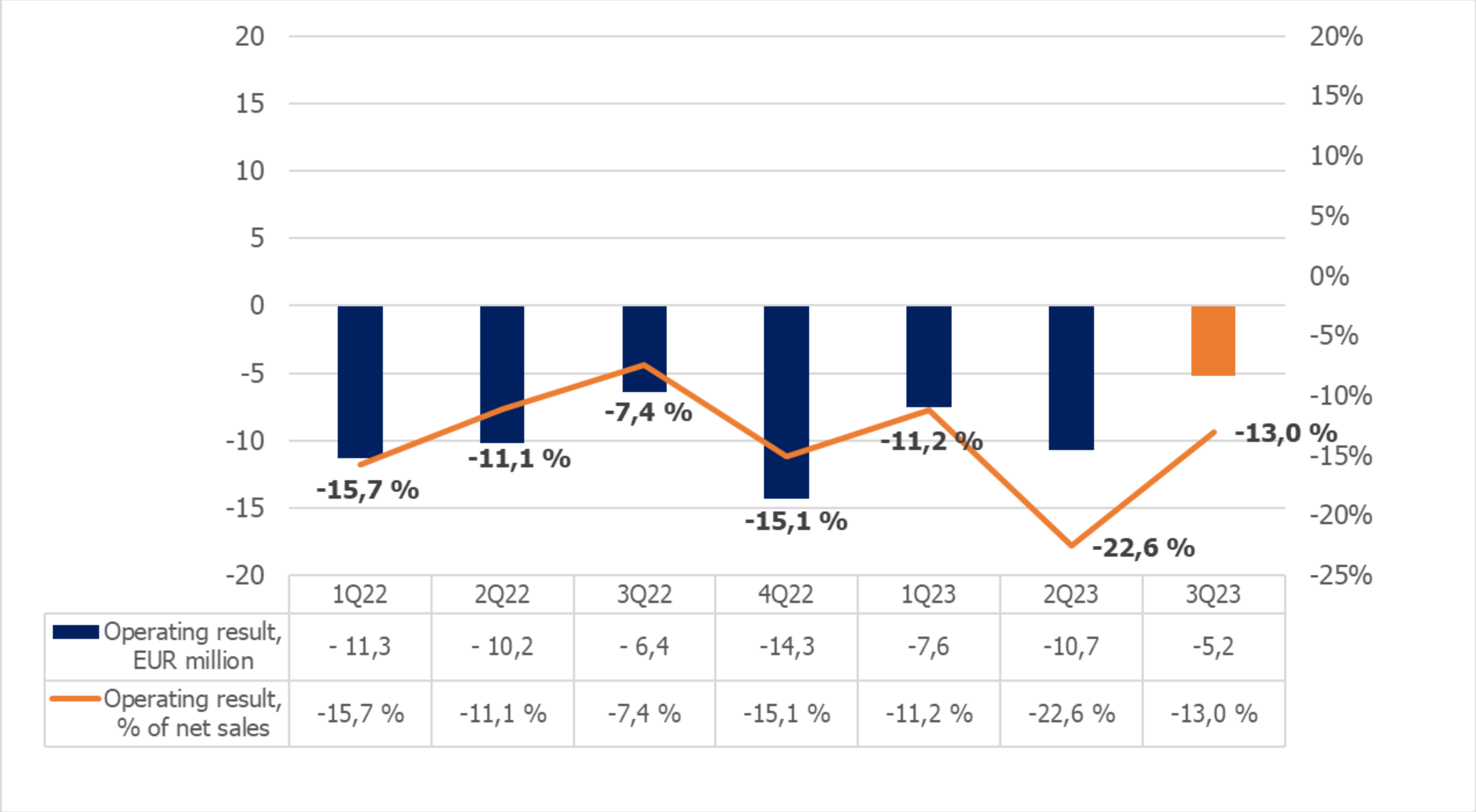




Operating result for the review period

- The operating result from operations for sale and continuing operations without impairment improved slightly and was EUR -23.4 (-27.9) million.

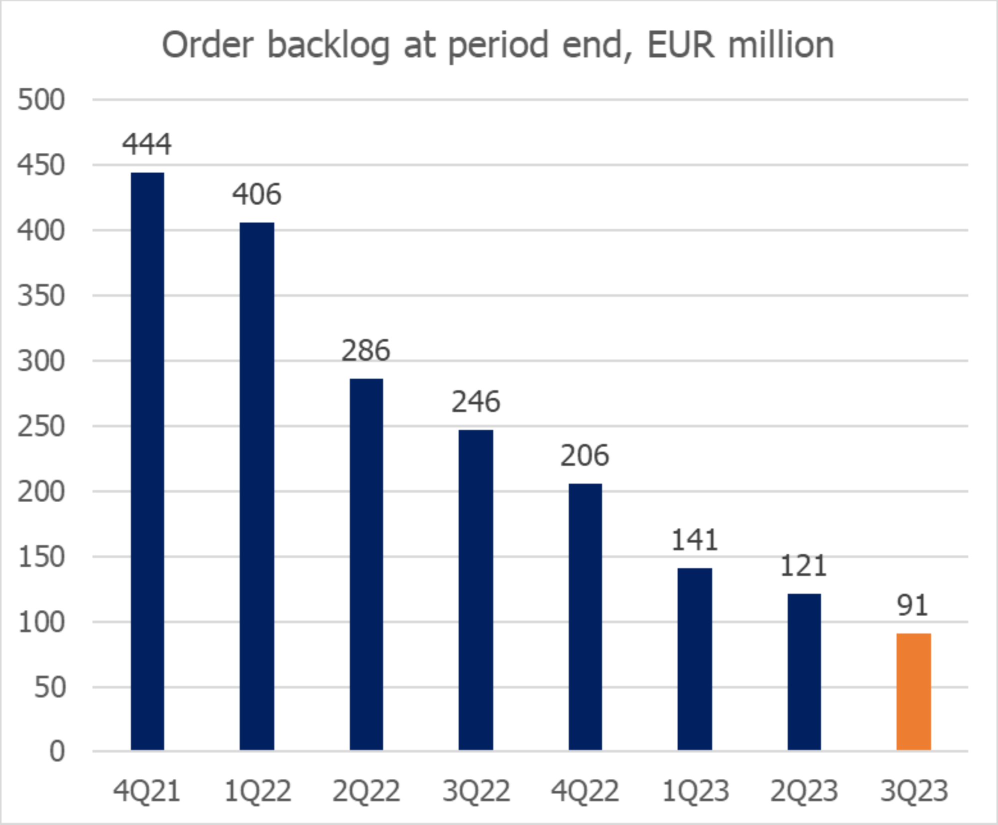
- The operating loss was impacted especially by developer-contracted projects sold at a loss as well as other low-margin or loss-making projects.



	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Operating result, EUR million	- 11,3	- 10,2	- 6,4	-14,3	-7,6	-10,7	-5,2
Operating result, % of net sales	-15,7 %	-11,1 %	-7,4 %	-15,1 %	-11,2 %	-22,6 %	-13,0 %

Order backlog

- The order backlog declined to EUR 90.9 million (EUR 205.9 million on 31 December 2022).
- The order backlog was down in both service areas due to the low order intake.



Balance sheet

- Lehto announced on 24 October 2023 that it has signed a letter of intent regarding the sale of its operative subsidiaries.
- The balance sheet values of the assets for sale on September 30, 2023 are subject to an impairment of 33.5 million euros since the net income generated for the parent company as a result of the consummation of the transaction would be lower than the net value of the assets classified as available for sale and the related liabilities.
- The balance sheet total comparable to previous periods before impairment of assets and reclassification of balance sheet items was EUR 172.6 (267.2) million.
- According to this, the equity ratio (taking lease liabilities into consideration) stood at 22.6% (27.0%) and the net gearing ratio was 201.1% (147.9% on 31 December 2022).
- The equity ratio without the lease liabilities under IFRS 16 stood at 35.0% (38.7%) and the net gearing ratio was 39.0% (31.0%).
- 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.

Consolidated balance sheet before impairment and reclassification of balance sheet items, EUR million	30 Sep 2023	30 Sep 2022	31 Dec 2022
Non-current assets	21.4	44.9	27.7
Current assets			
Inventories, excluding IFRS 16 assets	55.2	121.4	101.2
Inventories, IFRS 16 assets	59.6	79.4	70.9
Current receivables	29.0	64.4	50.4
Cash and cash equivalents	7.5	11.6	13.2
Non-current assets held for sale	0.0	0.0	3.8
Assets total	**172.6**	**321.8**	**267.2**
Equity	38.6	94.8	66.6
Financial liabilities	22.6	38.7	33.9
Lease liabilities	62.6	84.0	77.8
Liabilities to customers for constructing contracts (advances received)	1.6	32.6	20.6
Other payables	47.2	71.6	68.4
Equity and liabilities total	**172.6**	**321.8**	**267.2**

The consolidated balance sheet below shows the Group's assets and liabilities **before impairment and reclassification of balance sheet items**.

Balance sheet 30 Sep 2023, reconciliation

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The table below shows reconciliation of the official consolidated balance sheet which shows the assets and liabilities related to the operations for sale after the impairment of the assets of 33.5 million euros, reclassified separately from other assets and liabilities.

Consolidated balance sheet on 30 Sep, 2023, EUR million	Balance sheet items including assets and liabilities held for sale	Reclassification of balance sheet items to assets and liabilities held for sale	**Total (official)**
Non-current assets	21.4	-17.7	3.7
Current assets			
Inventories, excluding IFRS 16 assets	55.2	-55.1	0.1
Inventories, IFRS 16 assets	59.6	-59.6	0.0
Current receivables	29.0	-22.6	6.4
Cash and cash equivalents	7.5	-0.1	7.5
Non-current assets held for sale	0.0	121.4	121.4
Assets total	**172.6**	**-33.5**	**139.1**
Equity	38.6	-33.5	5.1
Financial liabilities	22.6	-2.4	20.2
Lease liabilities	62.6	-62.6	0.0
Liabilities to customers for constructing contracts (advances received)	1.6	-1.6	0.0
Other payables	47.2	-45.1	2.1
Non-current liabilities related to assets held for sale		111.6	111.6
Total equity and liabilities	**172.6**	**-33.5**	**139.1**

Housing

- The Housing service area’s **net sales** experienced a year-on-year decrease of 27.7% to EUR 105.8 (146.3) million. All net sales consist of operation for sale.
- During the review period, 263 **apartments were sold**, most of them in housing projects targeted at consumers. 80 apartments in one consumer project were sold to an investor client.
- During the period, 902 (794) **housing units were completed**, but only one new housing project with 31 housing units was started up (454 units started up in 1-9/2022). There were 325 (1,662) **housing units under construction** at the end of the review period.
- At period end, **the number of completed and unsold apartments** stood at 30 (49). There were no unsold apartments under construction (221 units on 30 September 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.
- The Housing service area’s **order backlog** stood at EUR 58.3 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.

Housing
Sold, under construction, unsold

Sold housing units during the review period	1-9/2023	1-9/2022	1-12/2022
Investor projects	84	270	497
Consumer projects	179	189	261
Sold housing units during the review period, total	**263**	**459**	**758**

Housing units under construction	1-9/2023	1-9/2022	1-12/2022
Under construction at the beginning of the period	1,196	2,002	2,002
+ started up during the period	31	454	586
- completed during the period	902	-794	-1,392
Housing units under construction, in the end of the period	**325**	**1,662**	**1,196**

Unsold housing units	1-9/2023	1-9/2022	1-12/2022
Under construction	-	221	181
Completed	30	49	73
Unsold housing units, total	**30**	**270**	**254**

Business Premises

- The service area's **net sales** experienced a year-on-year decrease of 53.1% to EUR 48.7 (103.7) million. All net sales consist of operations for sale. Net sales decreased due to the decline in the number of projects and as a result of Lehto's more selective project selection process.

- Six business premises projects **were completed** and handed over during the review period (9 sites in 1-9/2022). At period-end, one (11) project was under construction, which is the Finnish headquarters of Makita, and a warehouse building in Tuusula.

- The Business Premises service area's **order backlog** decreased to EUR 32.6 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.

Outlook for 2023

As Lehto announced in stock exchange release on 24 October 2023, due to the intended sale of its operative subsidiaries, the earlier outlook for 2023 is no longer valid, and it will not issue a new outlook regarding its net sales and operating result for 2023.

The adequacy of cash reserves

- Assuming Lehto will not receive any new financing or cash flow from new projects, Lehto estimates that its cash reserves will last until the end of December 2023.
- The adequacy of Lehto's cash reserves is subject to many uncertainties, including the timing of incoming cash flow from various building projects, the payment schedule of a certain material disputed receivable, and the results of negotiations related to the payment schedule of other receivables and debts.
- Lehto estimates that the consummation of the transaction is essential for the continuation of Lehto's business operations and without additional financing or cash flow from new projects, Lehto will not be able to meet its payment liabilities in the first quarter of 2024.
- More information about issues is available on stock exchange releases published on 24 October 2023.

The remaining Lehto Group

- After completion of the proposed transaction the parent company would retain cash, sundry assets and sundry liabilities of approximately net EUR 5–8 million in the aggregate with cash and cash equivalents representing approximately EUR 1–2 million of such net figure. In addition, the parent company would retain the convertible bond of EUR 15 million.
- The company expects to summon a meeting of the convertible bond holders in relation to the proposed transaction, and it is possible therein that the bond holders will vote on certain proposed amendments to the terms and conditions of the convertible bond, including a potential conversion of the convertible bond into equity of Lehto.
- Assuming that the convertible bond, or a material proportion thereof, will not be converted into equity of Lehto, the retained net assets of Lehto after completion of the proposed transaction are expected to be negative.

CEO Juuso Hietanen:

"In the third quarter, we continued the process we started at the beginning of the year to find structural or ownership partners. The goal of the process has been to secure funding for the implementation of the company's strategy and projects.

Negotiations took place in the third quarter of the year closely, and at the end of October we signed a letter of intent to sell our operational subsidiaries to a European fund management company. The planned transaction comprises in practice all of the current business operations of Lehto Group.

As we told when publishing the letter of intent, through negotiations we found a solid and reliable contract partner who recognizes the future potential of our business. The contractual partner has significant financial resources and experience in investing in companies in the real estate industry.

We believe that this planned transaction is the best possible arrangement currently feasible in this challenging construction industry market situation. In the last quarter of the year, our focus is on implementing the transaction and mapping the business opportunities of the remaining parent company."

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