Financial Statements 2022

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

CEO’s Review

The year of changes and arrangements

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- New financing package
- Selling the pipeline renovation business
- Strengthening cash flow
- A significant number of corrective measures
  - Structural and organizational changes
  - Changes in operational operating models
  - Improving the use of capital
  - Strengthening competence
  - Adaptation of human resources
  - Cost efficiency related to factory properties

Our operations generated losses in 2022

The main reasons for the losses were loss-making construction projects for Business Premises and wooden apartment buildings.

The volume and profitability of wooden apartment buildings has a very high potential.

Business Premises

- Significantly loss-making office, hotel or renovation projects priced before 2021.
- An operating and pricing model has 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 updated strategy, Business Premises will focus on hall-like buildings.

Wooden apartment buildings

- Our company has historically built wooden apartment buildings with a good profit margin.
- The profitability challenges of 2022 are mainly related to the organizational model, project planning and on-site implementation.
- We have made corrections.
- In wooden apartment buildings 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.

Market

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- 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 goal is to ensure steady cash flow and keep the number of unsold apartments low.**
  - Almost 90 per cent of our ongoing housing projects are being built for institutional investors and therefore have no associated sales risks
  - We had 73 completed yet unsold units at the turn of the year.
- **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.

We have launched structural and ownership arrangements

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- Lehto sees that its current business portfolio is wide taking into consideration the market circumstances and the company’s financing position.
- We have started a process to seek **industrial or ownership** partners.
- Through the possible arrangements Lehto wants to make sure that there is financing for the strategy execution and for the projects.
- It is possible that company arranges its business partly or completely.

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Year 2022 in brief

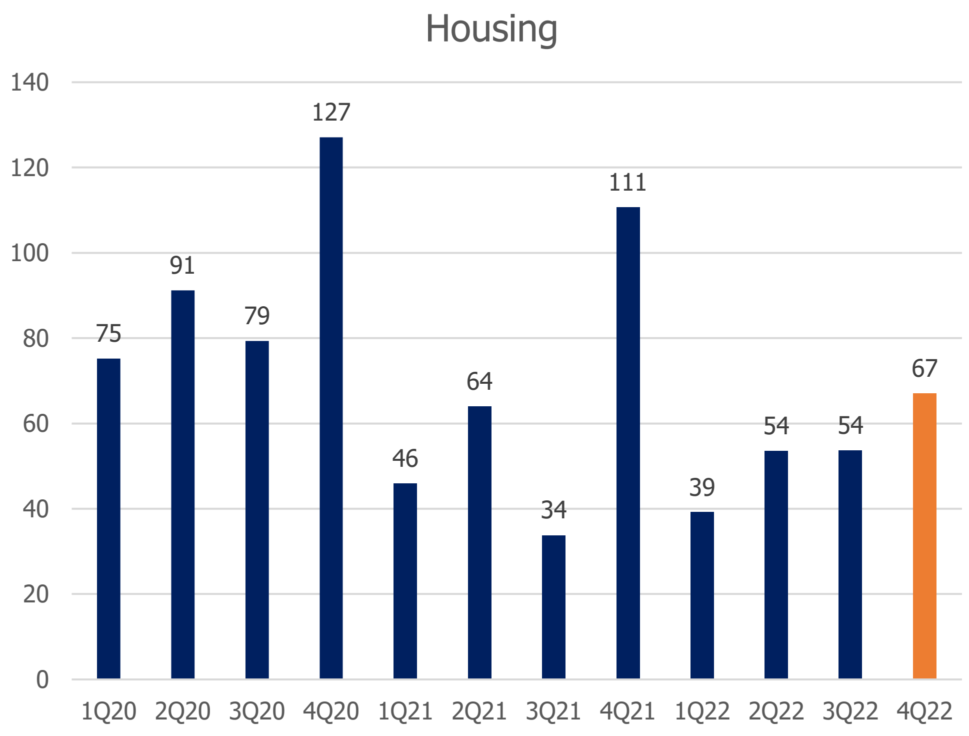
- **In 2022, net sales** from continuing operations were down 14.7% on the previous year and amounted to EUR 344.8 (404.1) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.
- **The operating result** from continuing operations was EUR -42.2 (-28.3) million.
- 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).
- **A financing package** amounting to about EUR 50 million was implemented in June.

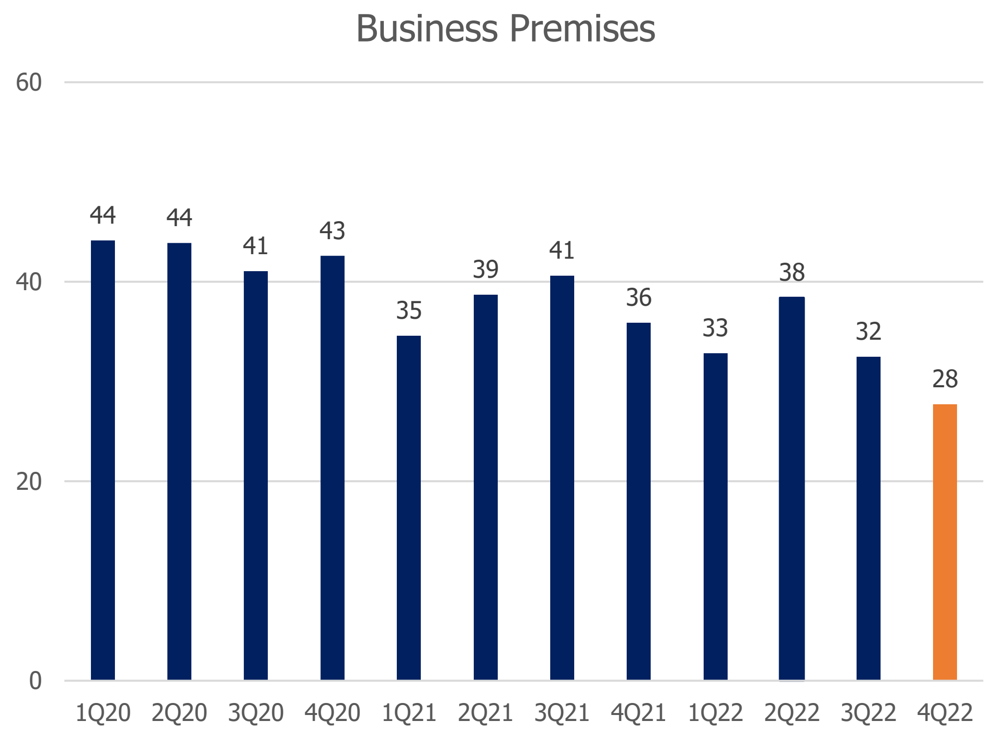
Net sales by service area
EUR million

Service area	1-12/2022	1-12/2021	Change
Housing	213.3	254.3	-16.1%
Business Premises	131.5	149.8	-12.3%
TOTAL	**344.8**	**404.1**	**-14.7%**

The impact of the divested pipeline renovations business has been eliminated from the net sales of the Housing service area for all reported periods.

Net sales by quarter and service area
EUR million





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Operating result, continuing operations

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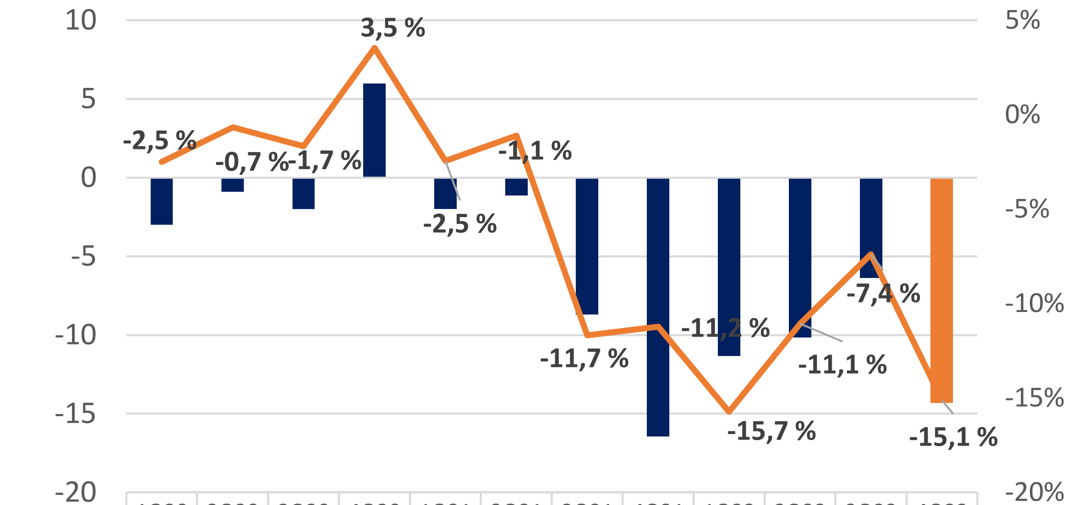
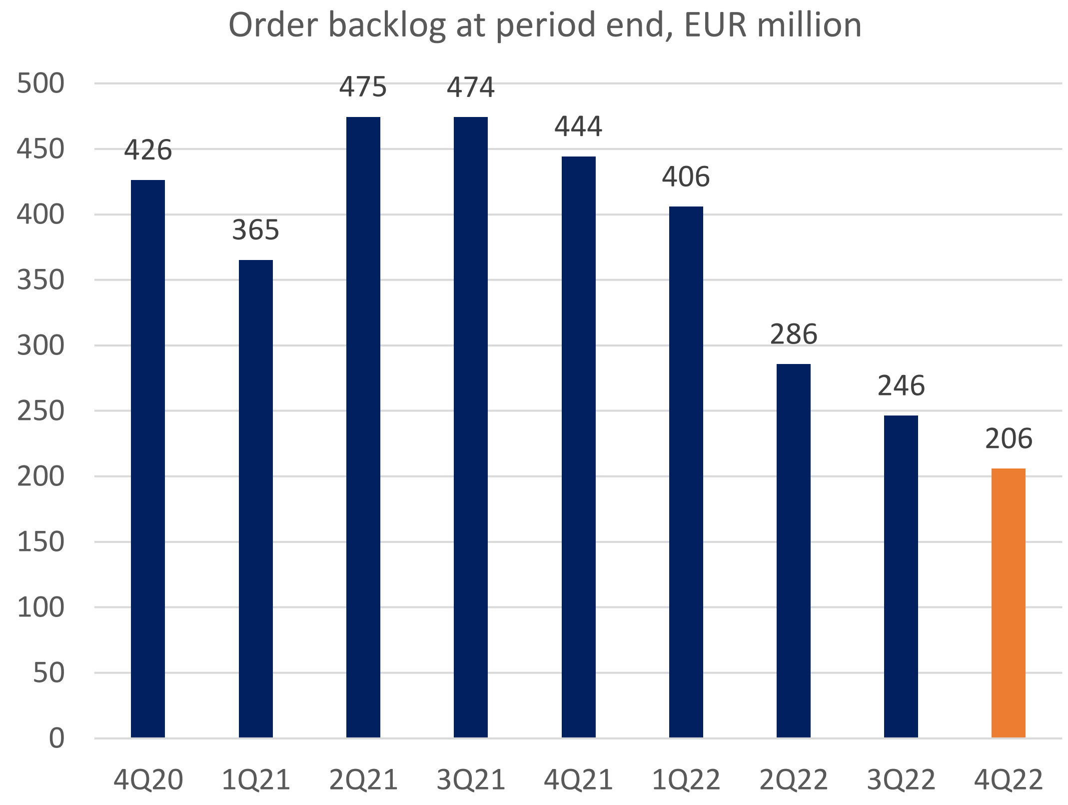
- The operating result from continuing operations in fourth quarter was EUR -14.3 million (4Q/2021 EUR -16.5 million)
- The operating result 2022 from continuing operations was EUR -42.2 (-28.3) million.
- The operating result was burdened by approximately EUR 30 million in special items. These special 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



	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Operating result, EUR million	- 3,0	- 0,9	- 2,0	6,0	- 2,0	- 1,1	- 8,7	- 16,5	- 11,3	- 10,2	- 6,4	-14,3
Operating result, % of net sales	-2,5 %	-0,7 %	-1,7 %	3,5 %	-2,5 %	-1,1 %	-11,7 %	-11,2 %	-15,7 %	-11,1 %	-7,4 %	-15,1 %

Order backlog

- 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
  - 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 the Housing service area decreased by 36 per cent to EUR 155.6 million.
  - 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.



Balance sheet

- **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**
  - with lease liabilities under IFRS 16 27.0% (27.2%) and the net gearing ratio 147.9% (113.8% on 31 December 2021).
  - without the lease liabilities 38.7% (37.3%) and the net gearing ratio 31.0% (14.4%).

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
Total assets	**267.2**	**355.1**
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
Total equity and liabilities	**267.2**	**355.1**

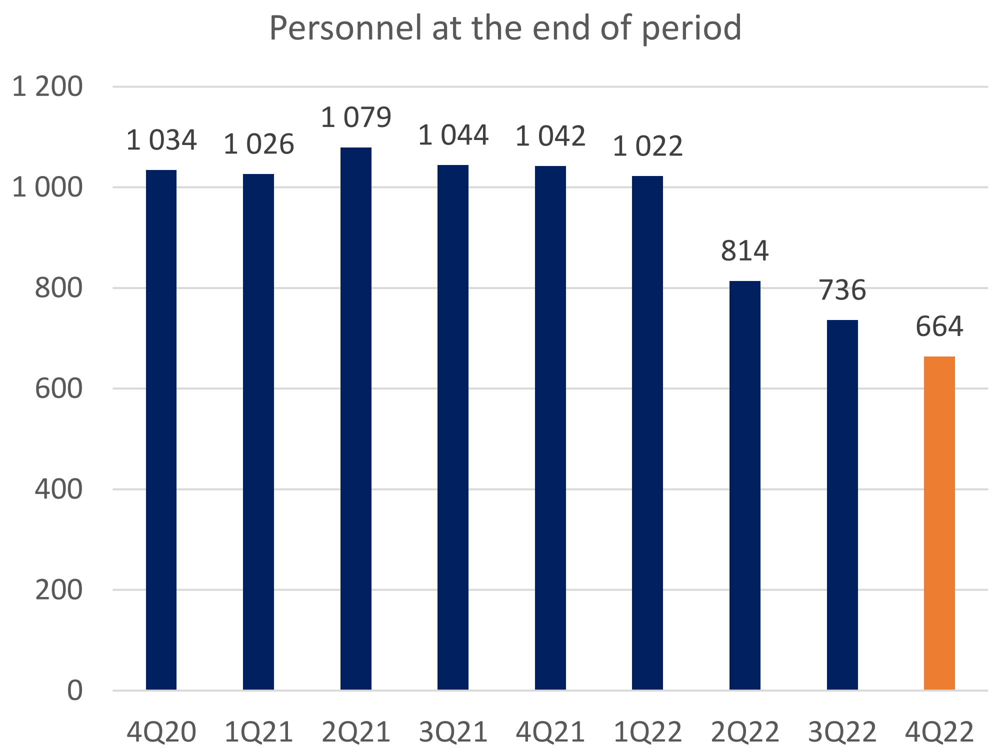
Cash flow statement

- **Net cash flow from operating activities** was EUR -33.7 (-40.5) million, which includes the decline of EUR 15.5 (-25.6) million in net working capital 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 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 e.g. the repayment of the previous EUR 25.1 million RCF revolving credit facility.

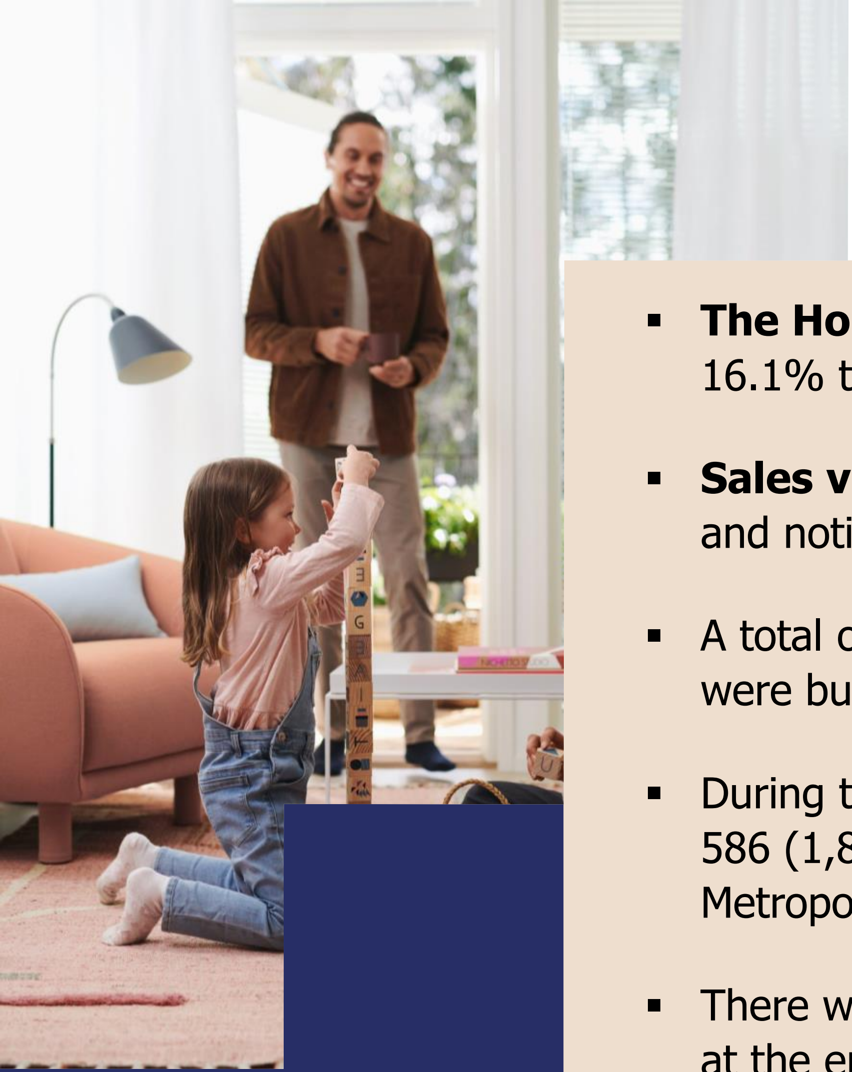
Cash flow statement, Meur	**1-12/2022**	**1-12/2021**
Cash flow from operating activities		
Result for the financial period + adjustments	-49,2	-14,9
Change in net working capital	15,5	-25,6
Cash flow from operating activities, total	-33,7	-40,5
Cash flow from investments	27,8	-0,7
Cash flow from financing	-13,6	-31,1
Change in cash and cash equivalents	**-19,5**	**-72,3**
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

Personnel

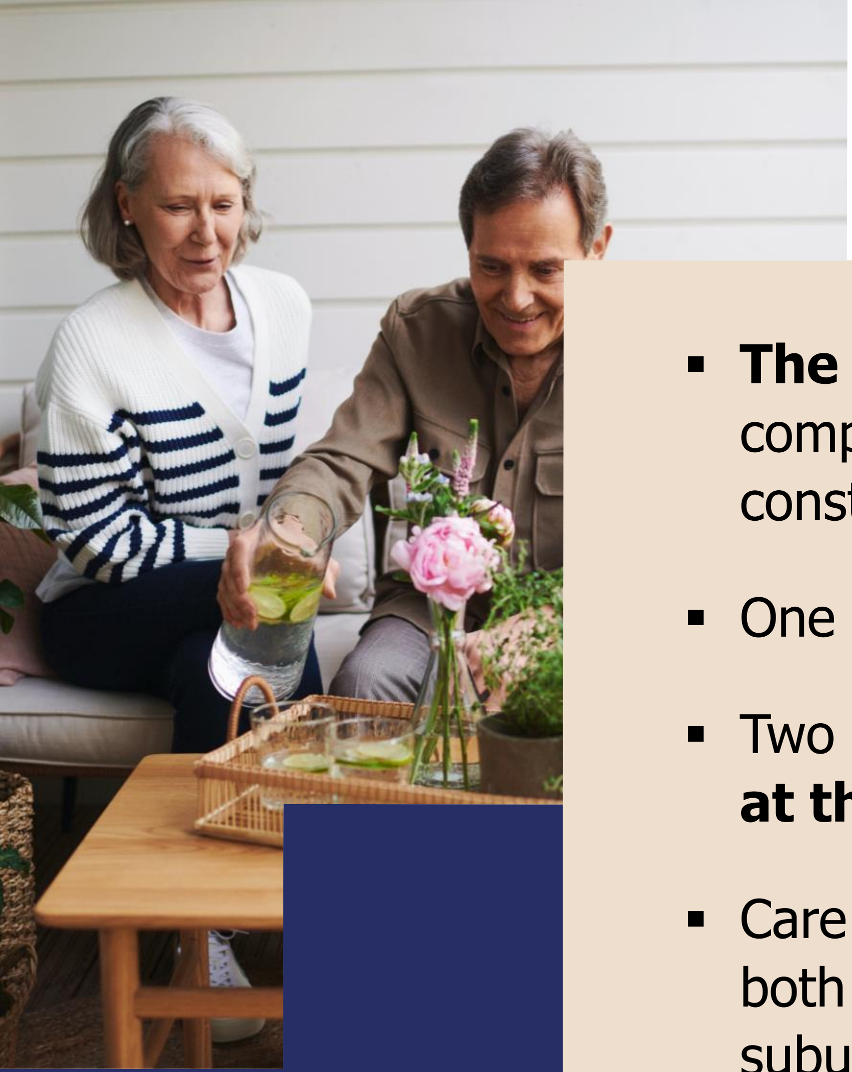
- The number of personnel **at period-end** was 664 (1,042) which is **36 per cent fewer** than a year earlier.
  - Of the reduction in the number of employees, 121 people are related to the sale of the pipeline renovation business.
- **The average number** of personnel during the period was 860 (1,043).



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.
- 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.
- 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.



Care home construction

- **The volume of care home construction** was higher than in the comparison period, as some assisted living units 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.

Business Premises

- **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 process for choosing projects.
- 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.

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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 quarantees for the construction projects.

Thank you!