

HLRE Holding Group

Half-Year Financial Report, 1 February – 31 July 2022

Comparison figures in brackets refer to the corresponding period previous year.

May – July 2022 in short

- Q2 revenue decreased by 2% to EUR 32,8 million (EUR 33,6 million).
- Q2 gross profit decreased by 8% to EUR 11,9 million (EUR 13,0 million).
- Q2 adjusted EBITDA decreased to EUR 1,7 million (EUR 2,4 million).
- Q2 operating profit was EUR -0,3 million (EUR 0,2 million).
- Q2 net cash from operating activities decreased to EUR -0,3 million (EUR 0,1 million).

February – July 2022 in short

- H1 revenue decreased by 3% to EUR 60,7 million (EUR 62,9 million).
- H1 gross profit decreased by 9% to EUR 23,2 million (EUR 25,5 million).
- H1 adjusted EBITDA decreased to EUR 3,6 million (EUR 5,0 million).
- H1 operating profit was EUR -0,8 million (EUR -0,4 million).
- H1 net cash from operating activities decreased to EUR -2,3 million (EUR 1,6 million).

Key Figures

HLRE HOLDING GROUP IN MEUR					
IFRS	May-Jul 2022	May-Jul 2021	Feb-Jul 2022	Feb-Jul 2021	Feb 2021-Jan 2022
Revenue	32,8	33,6	60,7	62,9	130,4
Gross profit	11,9	13,0	23,2	25,5	55,3
Gross margin	36,3 %	38,7 %	38,2 %	40,5 %	42,4 %
Adjusted EBITDA	1,7	2,4	3,6	5,0	13,8
EBIT	-0,3	0,2	-0,8	-0,4	4,4
Net cash from operating activities	-0,3	0,1	-2,3	1,6	7,3

Company description

HLRE Holding Group (commonly known as Vesivek Group) is a leading provider of roof and roof product renovations offered primarily to detached and row houses in Finland and Sweden under the brand name Vesivek. In addition to roof and roof product installations, Vesivek provides underground drain renovations in five locations in Finland. The Group also develops, manufactures, and sells high quality rainwater systems and roof safety products.

HLRE Holding Group operates currently in 17 locations in Finland and three locations in Sweden and employs more than 850 employees in average. The Group has two in-house manufacturing facilities in Finland, steel roofing profile production in Pirkkala and manufacture of rainwater systems and roof safety products in Orimattila.

Management Overview of the second quarter

Group business environment continued challenging on the second quarter due to the increased geopolitical risks related to the crisis in Ukraine and the rising inflation especially in building materials. Due to uncertainty on short-term material availability, Group management decided to continue to maintain higher inventory levels compared to the previous year to secure Group's delivery capability. Group is likely to continue to hold higher inventory levels compared to normal levels in order to ensure delivery capability.

A daughter company in the Group, Nesco Oy, was named to Vesivek Tuotteet Oy in April 2022. Management sees the name change under the well-known Vesivek-brand in Finland further strengthens Vesivek Tuotteet Oy. In addition, to deepen the co-operation of Vesivek Oy and Vesivek Tuotteet Oy sales activities is expected to boost the businesses of both companies.

Second quarter 2022

The Q2 revenue decreased to EUR 32,8 million (33,6 million) and gross profit decreased to EUR 11,9 million (13,0 million). Reported EBITDA was EUR 1,6 million (2,2 million). Adjusted EBITDA decreased to EUR 1,7 million (2,4 million). Reported adjustments totalled EUR 0,1 million (EUR 0,2 million) in Q2 including legal and leadership development project costs. Impact of the adjustments to the operating cashflow in Q2 amounted to EUR 0,1 million (EUR 0,2 million). Net cash from operating activities was EUR -0,3 million (0,1 million).

First half 2022

The H1 revenue decreased to EUR 60,7 million (62,9 million) and gross profit decreased to EUR 23,2 million (25,5 million). Reported EBITDA was EUR 3,1 million (3,6 million). Adjusted EBITDA decreased to EUR 3,6 million (5,0 million). Reported adjustments totalled EUR 0,5 million (EUR 1,4 million) in H1 including legal and financial advisory costs for the bond listing to Stockholm stock exchange in February 2022 of EUR 0,15 million, other legal costs of EUR 0,1 million and a leadership development project cost of EUR 0,25 million. Impact of the adjustments to the operating cashflow in H1 amounted to EUR 0,5 million (EUR 0,4 million). Net cash from operating activities was EUR -2,3 million (1,6 million) due to the higher negative working capital changes compared to H1 2021, EUR -3,4 million (-1,6 million) and the cash flow effect of the weaker business performance especially on the roof and roof product renovations in Finland.

Outlook for the financial year 1 February 2022 – 31 January 2023

No outlook for the financial year 1 February 2022 – 31 January 2023.

Risks and uncertainties

The Group's revenues and operating profit are affected by general economic conditions, which are, in turn, influenced by many factors beyond the Group's control. The Group currently operates in Finland and Sweden. Currently, the majority of the Group's operations are located in Finland but growth in both markets, for example, by way of increasing market share and/or expanding the Group's product and service offering is an important factor in fulfilling the Group's strategic objectives. Respectively, the Group's revenue and operating profit are particularly susceptible to general economic conditions and perception of future general economic conditions in the Finnish and Swedish markets.

Uncertainty or adverse trends in general economic conditions could affect the Group's business and demand for the Group's products and services through, inter alia, affecting consumer confidence as well as through adverse impacts on the business activities of the Group's corporate clients purchasing the Group's rainwater systems and roof safety products. Importantly, the general economic conditions may adversely affect the level and cost of financing available to the Group's consumer and corporate clients to make investments in renovations and refurbishments. Moreover, increases in the costs of financing and decreases in the level of available financing may adversely affect the Group's ability to make investments and fulfil its strategic objectives and may have a material adverse effect on the Group's business, financial position and results. Through its manufacturing operations, the Group is furthermore exposed to the risk of fluctuations in certain commodity prices (such as steel, aluminium and wood) and energy prices (especially through fuel costs for vehicles) and increases in prices due to economic disruptions and changes in general market conditions may have an adverse effect on the

Group's business, financial position and results. All of the factors mentioned above could harm the Group's operations and the Group cannot predict the ways in which the future economic environment and market conditions may affect the Group's operations.

In general, the frequency of accidents at construction sites is worth noticing and the Group operates in a business segment subject to extensive laws and regulations regarding the work environment. Despite required health and safety measures and, for example, the use of scaffoldings on its construction sites improving the safety of the personnel, the Group is exposed to the risk of, possibly even fatal, accidents at the workplace especially on its roof renovation sites but also at its manufacturing facilities. In addition to physical injuries, employees of the Group are exposed to risks related to hazardous substances as certain of the Groups renovation sites contain asbestos. Respectively, the Group must also comply with specific environmental regulations with respect to asbestos. Finnish legislation includes particularly stringent requirements for any activities involving asbestos and the safety requirements for such activities. Any failure to comply with the regulations concerning health and safety or asbestos related activities may result in liability for the Group and/or the Group's permit being revoked. For example, if Group's permit to handle asbestos would be revoked, the Group would need to stop all business activities relating to handling of asbestos and acquire the work through subcontractors. Moreover, all potential accidents and health impacts have an adverse effect on its personnel's well-being. The Group as an employer is exposed to the risks related to health and safety issues of its employees possibly resulting in reduced working capacity of employees.

The Group may, in the future, become in breach of financial covenants and other obligations in its financing agreements that constitute grounds for termination or acceleration. A failure by the Group to obtain necessary capital in the future, or obtaining financing on less favourable terms, may have an adverse effect on the Group's business, financial position and results.

For more information

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Consolidated Statement of Comprehensive Income
1000 EUR

	May-Jul 2022	Feb - Jul 2022	May-Jul 2021	Feb - Jul 2021	Feb 2021-Jan 2022
REVENUE	32 747	60 677	33 580	62 882	130 352
Other operating income	274	630	211	466	1 063
Material and services	-12 791	-22 678	-12 913	-22 478	-45 375
Employee benefits expense	-12 796	-24 172	-13 124	-25 179	-50 257
Depreciation and amortisation	-1 924	-3 873	-1 967	-3 919	-7 855
Other operating expenses	-5 809	-11 358	-5 582	-12 156	-23 572
OPERATING PROFIT	-299	-774	205	-384	4 356
Finance income	-125	28	340	560	1 146
Finance cost	-614	-1 946	-923	-1 781	-4 148
Finance cost - net	-739	-1 919	-583	-1 222	-3 003
PROFIT/LOSS BEFORE TAX	-1 038	-2 693	-378	-1 606	1 353
Income tax expense	-38	239	220	149	-663
PROFIT/LOSS FOR THE PERIOD	-1 076	-2 454	-1 299	-1 457	691
Profit attributable to:					
Owners of the parent company	-988	-2 358	-113	-1 350	623
Non-controlling interests	-88	-96	-45	-107	68
	-1 076	-2 454	-158	-1 457	691
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operat	-22	9	-1	-6	-54
	-22	9	-1	-6	-54
TOTAL COMPREHENSIVE INCOME	-1 097	-2 445	-159	-1 463	637
Total comprehensive income attributable to:					
Owners of the parent company	-1 007	-2 349	-2 597	-1 355	574
Non-controlling interests	-91	-96	-171	-108	63
	-1 097	-2 445	-2 768	-1 463	637

Consolidated Statement of Financial Position
1000 EUR

	31.7.2022	31.7.2021	31.1.2022
ASSETS			
NON-CURRENT ASSETS			
Goodwill	40 304	40 304	40 304
Intangible assets	766	726	657
Property, plant, equipment	27 272	26 839	27 188
Other non-current financial assets	48	48	48
Loan receivables	6	9	7
Other non-current receivables	2	52	26
Deferred tax assets	567	942	169
NON-CURRENT ASSETS	68 965	68 919	68 400
CURRENT ASSETS			
Inventories	19 183	12 404	15 464
Trade receivables and other receivables	11 727	13 258	9 859
Cash and cash equivalents	481	3 731	5 201
CURRENT ASSETS	31 391	29 393	30 524
ASSETS	100 357	98 312	98 923
EQUITY AND LIABILITIES			
Owners of the parent company	25 666	26 079	26 227
Non-controlling interests	-128	-199	-37
EQUITY	25 537	25 880	27 963
NON-CURRENT LIABILITIES			
Non-current liabilities, interest-bearing	52 640	51 620	51 197
Non-current interest-free liabilities	422	389	422
Deferred tax liabilities	112	662	216
NON-CURRENT LIABILITIES	53 174	52 671	51 834
CURRENT LIABILITIES			
Current interest-bearing liabilities	5 380	4 439	4 633
Current interest-free liabilities	16 265	15 323	14 494
CURRENT LIABILITIES	21 646	19 762	19 126
Liabilities	74 819	72 433	70 960
EQUITY AND LIABILITIES	100 357	98 312	98 923

Consolidated Statement of Cash Flows, indirect

1000 EUR	May-Jul 2022	May-Jul 2021	Feb-Jul 2022	Feb-Jul 2021	Feb 2021-Jan 2022
Cash flows from operating activities					
PROFIT/LOSS FOR THE PERIOD	-1 076	-158	-2 454	-1 457	691
Adjustments to the profit/loss for the period	2 725	2 952	5 507	6 294	12 566
Working capital changes	-1 159	-2 046	-3 434	-1 572	-2 382
Cash flow from operating activities before finance and taxes	490	748	-381	3 265	10 874
Finance income and expense	-781	-830	-1 340	-1 407	-2 880
Income taxes paid	-60	32	-610	-288	-661
Net cash from operating activities	-351	-50	-2 330	1 570	7 333
Cash flows from investing activities					
Purchase of tangible and intangible assets	-319	634	-730	-819	-3 160
Proceeds from sale of tangible and intangible assets	17	-1 170	218	144	326
Acquisition of subsidiaries, net of cash acquired	0	0	0	-194	-201
Addition / deduction of loan receivables	2	311	4	260	273
Addition / deduction of cash equivalents	0	1	0	0	0
Net cash used in investing activities	-300	-224	-509	-609	-2 762
Cash flows from financing activities					
Proceeds from issue of share capital	0	0	0	0	0
Capital investment by non-controlling interests	-2	-183	0	0	0
Purchase of treasury shares	0	0	0	0	-28
Proceeds from sale of treasury shares	0	10	0	78	78
Proceeds from current borrowings	-332	0	411	0	0
Repayment of current borrowings	-4	-3	-6	-25 815	-25 820
Addition / deduction of current borrowings	-15	1	-10	1	8
Proceeds from non-current borrowings	138	0	138	28 781	29 045
Repayment of non-current borrowings	1	70	0	141	29
Payment of lease liabilities	-1 219	-1 325	-2 413	-2 635	-4 900
Net cash used in financing activities	-1 432	-1 431	-1 880	551	-1 588
Net change in cash and cash equivalents	-2 084	-1 705	-4 724	1 512	2 982
Cash and cash equivalents, opening amount	2 564	5 435	5 201	2 219	2 219
Net increase/decrease in cash and cash equivalents	-2 084	-1 705	-4 724	1 512	2 982
Effects of exchange rate fluctuations on cash held			0	0	
Cash and cash equivalents	481	3 731	481	3 731	5 201
Cash and cash equivalents, other arrangements	0	0	0	0	0

Consolidated Statement of Changes in Equity

1000 EUR	Note	Share capital	Reserve for invested unrestricted equity	Translation differences	Accumulated earnings	Total	Non-controlling interests	Total equity
	19							
EQUITY 1.2.2022		80	18 002	-17	9 935	28 000	-37	27 963
Adjusted equity		80	18 002	-17	9 935	28 000	-37	27 963
Comprehensive income								
Profit/loss for the period					-2 358	-2 358	-96	-2 454
Other comprehensive income:								
Translation differences		0	0	9	0	9	0	9
TOTAL COMPREHENSIVE INCOME		0	0	9	-2 358	-2 349	-96	-2 445
Transactions with owners								
Other changes		0	0	0	14	14	5	20
Total transactions with owners		0	0	0	14	14	5	20
TOTAL EQUITY 31.7.2022		80	18 002	-8	7 592	25 666	-128	25 537

1000 EUR	Note	Share capital	Reserve for invested unrestricted equity	Translation differences	Accumulated earnings	Total	Non-controlling interests	Total equity
	19							
EQUITY 1.2.2021		3	18 079	32	9 266	27 379	93	27 472
Comprehensive income								
Profit/loss for the period					-1 350	-1 350	-107	-1 457
Other comprehensive income:								
Translation differences		0	0	-6	0	-6	-1	-6
TOTAL COMPREHENSIVE INCOME		0	0	-6	-1 350	-1 356	-108	-1 463
Transactions with owners								
Sale of treasury shares		0	0	0	91	102	0	102
Reclassifications		78	-78	0	-24	-24	0	-24
Other changes		0	0	0	-15	-15	-6	-21
Total transactions with owners		78	-78	0	62	62	-6	56
Changes in ownership interests in subsidiaries								
Changes in ownership interest without loss of control						-7	-179	-186
Changes with change in control		0	0		0	0	4	4
TOTAL EQUITY 31.7.2021		80	18 002	26	8 092	26 200	-139	25 880

	Share capital	Reserve for invested unrestricted equity	Translation differences	Accumulated earnings	Total	Non-controlling interests	Total equity
EQUITY 1 Feb 2021	3	18079	32	9310	27423	93	27515
Comprehensive income							
Profit/loss for the period				623	623	68	691
Other comprehensive income:							
Translation differences			-49		-49	-5	-54
TOTAL COMPREHENSIVE INCOME			-49	623	574	63	637
Transactions with owners							
Acquisition of treasury shares				-28	-28		-28
Sale of treasury shares				102	102		102
Reclassifications	78	-78					
Other changes				-62	-62	-15	-77
Total transactions with owners	78	-78		11	11	-15	-3
Changes in ownership interests in subsidiaries							
Changes of non-controlling interests without change in control				-7	-7	1	-6
Changes with change in control			0	0	0	-180	-180
TOTAL EQUITY 31 Jan 2022	80	18002	-17	9937	28000	-37	27963

Notes to the condensed consolidated financial statements

1) Reporting entity

These condensed consolidated interim financial statements are the financial statements of a group of companies comprised of HLRE Holding Oyj (formerly HLRE Holding Oy), a Finnish public limited liability company operating under the laws of Finland with business ID 2611405-7 (hereinafter referred to as "HLRE Holding", "the Company" or "the parent company") and its subsidiaries, which are jointly referred to as "HLRE", "HLRE Group" or "the Group". The parent company of the Group is domiciled in Pirkkala, and its registered address is Jasperintie 273, FI-33960 Pirkkala, Finland.

HLRE Group (commonly known as Vesivek Group) is a leading provider of roof and roof product renovations offered primarily to detached and row houses in Finland and Sweden under the brand name Vesivek. In addition to roof and roof product installations, Vesivek provides underground drain renovations in five locations in Finland. The Group also develops, manufactures, and sells high quality rainwater systems and roof safety products under the brand name Nesco.

2) Basis of preparation

This condensed interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group's annual consolidated financial statements for the financial year ended 31 January 2022, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS and accordingly, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. The accounting policies applied are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the financial year ended 31 January 2022.

The consolidated financial statements are presented as thousands of euros, unless otherwise specified, and the numbers are rounded off to the nearest thousand. Because of this, the sum of individual figures can deviate from the reported total.

This condensed interim report has not been reviewed by the Company's auditors.

3) Seasonality of operations

The Group operates in an industry that sees seasonal changes. In a typical year, the third quarter amount significant share of the Group's full-year EBITDA affecting positively to the net cash flow.

4) Segment information and revenue

The Board of Directors of HLRE Holding is the Group's chief operating decision maker, and operating segments have been specified based on the information reviewed by the Board of Directors in order to allocate resources and assess the profitability of business operations. The Board of Directors manages the HLRE Group as a single integrated business aggregate, and therefore HLRE has a single operating and reportable segment.

The revenue of the HLRE Holding Group is primarily generated by roofing, roof product and underground drain renovations for single-family homes and housing companies pursuant to the service concept developed by the Company, as well as project and direct sales of rainwater systems and roof safety products. The entire service chain – product development, manufacturing, sales and installation – is in major part managed in-house by the Group.

The HLRE Holding Group is operating in Finland and Sweden. Small-scale out of total H1 revenue was generated by direct sales of rainwater systems and roof safety products from Vesivek Tuotteet Oy (former Nesco Oy) in Finland to Baltic countries and Russia. The Swedish turnover was generated exclusively by roofing and roof product installations:

Breakdown of revenue by country

1000 EUR

	Feb 22-Jul 22	%	Feb 21-Jul 21	%	Feb 21-Jan 22	%
Finland	49 340	81,3 %	51 948	82,6 %	109672	84,1 %
Sweden	11056	18,2 %	10659	17,0 %	20055	15,4 %
Baltic countries and Russia	281	0,5 %	275	0,4 %	625	0,5 %
Total	60 677	100,0 %	62 882	100,0 %	130352	100,0 %

5) Financial liabilities

In February 2021, the Company rearranged its financing, and issued a secured three-year SEK 300 million bond that includes an option of increasing the total loan, when separately agreed conditions are met, by a maximum total of SEK 100 million to a maximum total of SEK 400 million in one or more tranches. The bond is a non-amortizing bullet loan that matures on 12 February 2024 and carries interest at the rate of STIBOR 3 months plus a margin of 6,60 per cent per annum.

The bond involves a leverage covenant (ratio of net debt to EBITDA). The covenant should be equal to or less than 5.00/4.50/4.00 for the first/second/third year from the original issue date of the bond (12 February 2021).

The issuance of additional bonds requires that the Group's ratio of net debt to EBITDA does not exceed 3.00/2.75/2.50 one/two/three years after the original issue of the bond.

The Group complied with the leverage covenant throughout the reporting period. As at 31 July 2022, the leverage ratio was 3,53.

The bond has been listed on the Open Market segment of the Frankfurt Stock Exchange since February 2021. On 8 February 2022 the bond was admitted to trading on the corporate bond segment of Nasdaq Stockholm.

In addition to the issue of the bond, the Company agreed on a secured EUR 2,000,000 overdraft facility with Danske Bank A/S Finland Branch on 12 February 2021. The overdraft facility involves a leverage financial covenant similar to the terms and conditions of the bond. The facility was in use on 31 July 2022, EUR 410 thousand.

Maturities of contracts of financial liabilities 31 July 2022

1000 EUR

	No more than 12 months	Over 1 year and no more than 2 years	Over 2 years and no more than 5 years	Over 5 years	Total	Book value
Trade payables	8 746	2			8 748	8 748
Lease liabilities	5 243	4 018	4 693	593	14 547	13 969
Bonds	2 344	30 197			32 541	28 413
Shareholder loans			15 964		15 964	14 969
Derivatives					0	545
Overdraft facility	410				410	410

Maturities of contracts of financial liabilities 31 January 2022**1000 EUR**

	No more than 12 months	Over 1 year and no more than 2 years	Over 2 years and no more than 5 years	Over 5 years	Total	Book value
Trade payables	7 468	2			7 470	7 470
Lease liabilities	4 887	4 330	3 898	323	13 438	12 909
Bonds	1 888	1 888	29 077		32 853	28 000
Shareholder loans			15 964		15 964	14 648
Derivatives					0	484

6) Commitments and contingent liabilities

The following shares have been pledged as collateral for the bond and overdraft facility: HLRE Group Oy, Vesivek Oy, Vesivek Sverige AB and Vesivek Tuotteet Oy (previous name Nesco Oy).

Furthermore, the following internal loans have been pledged as collateral for the bond agreement:

Loan granted by HLRE Holding Oyj to HLRE Group Oy totaling EUR 11,996,333
Loan granted by HLRE Holding Oyj to Vesivek Oy totaling EUR 1,442,609
Loan granted by HLRE Holding Oyj to Nesco Invest Oy totaling EUR 8,446.71
Loan granted by HLRE Holding Oyj to Vesivek Tuotteet Oy totaling EUR 4,510,442

The following business mortgages have been confirmed and pledged as collateral for the bond and overdraft facility.

HLRE Group Oy EUR 57,200 thousand
Vesivek Oy EUR 57,200 thousand
Nesco Invest Oy EUR 57,200 thousand
Vesivek Tuotteet Oy EUR 57,200 thousand
Vesivek Sverige AB SEK 20,000 thousand

The following real estate mortgages have been pledged as collateral for the bond and overdraft facility:

Vesivek Tuotteet Oy Orimattila production plant EUR 13,673 thousand
Vesivek Oy industrial hall in Lieto EUR 46,800 thousand

7) Events after reporting date

The managing director of Vesivek Oy and Vesivek Salaojat Oy, Mr. Jari Lehtola, was relieved of his duties as managing director in the beginning of August effective immediately. His duties were taken over by Group CEO, Mr. Kimmo Riihimäki. Mr. Lehtola continues in some company's projects until the end of September after which leaves the company.

Use of Alternative Performance Measures

Alternative Performance Measures (APM) are financial measures of historical or future financial performance, financial position, or cash flows, other than financial measures defined or specified in the applicable financial reporting framework. HLRE Group reports the financial measures [Gross profit], [Gross margin] and [Adjusted EBITDA] in its quarterly reports, which are not financial measures as defined in IFRS. The Group believes that the alternative performance measures provide significant additional information on HLRE's results of operations, financial position and cash flows. The APMs are used consistently over time and accompanied by comparatives for the previous periods.

Gross profit = Revenues – cost of goods sold

Gross margin (%) = Gross profit in relation to Revenue

EBITDA = Operating profit (EBIT) + Depreciation + Amortization

EBITDA % = EBITDA in relation to Revenue

Adjusted EBITDA = EBITDA - EBITDA Adjustments

Adjusted EBITDA % = (EBITDA - EBITDA Adjustments) / Revenue

Operating profit (EBIT) % = Operating profit in relation to Revenue

EBITDA adjustments = IFRS loss of sale and lease back arrangement, advisory and other transaction costs related to re-financing and other non-recurring costs