

Company Nordecon AS  
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Attachments:

- Nordecon\_Interim\_report\_Q1\_2021.pdf (<http://oam.fi.ee/en/download?id=5494>)
- NCN investor presentation Q1\_2021.pdf (<http://oam.fi.ee/en/download?id=5495>)
- Nordecon\_Aruanne\_1Q\_2021.pdf (<http://oam.fi.ee/en/download?id=5496>)
- NCN investor presentation Q1\_2021.pdf (<http://oam.fi.ee/en/download?id=5497>)

Currency

Title 2021 first quarter consolidated interim report (unaudited)

The results of the first quarter of 2021 are characterised by a slight decrease in operating volumes compared to the same period of last year, due to projects completed in foreign markets, and new construction contracts concluded in record volumes.

The order book of Nordecon Group and the volume of contracts concluded in one quarter were the largest in the group's history. As of 31 March 2021, the volume of order book amounted to 281,431 thousand euros, which is approximately 23% more than in the comparable period last year. In the first quarter of 2021 new contracts were signed in total of 104,882 thousand euros worth. A number of large-scale contracts provide a significant volume of construction for 2022 and 2023.

Sales revenue for the reporting period, which was 48,987 thousand euros, is approximately 11% lower compared to the same quarter of the previous year. An important part of the decline in sales revenue is in foreign markets, where sales revenue has decreased by 73%, whereas Estonia's sales revenue has remained at a level comparable to the same period last year. The Group ended with -92 thousand euros gross profit in the first quarter. Due to the seasonal nature of the construction, the result of the first quarter is influenced by a large share of uncovered fixed costs, especially in the segment of infrastructure. This is mainly influenced by the asphalt concrete production and installation unit in road construction, where a large part of the fixed costs are necessary technical costs. In addition, the result was significantly influenced by the one-off costs associated with the completion of construction works of Nysäter wind farm in Sweden.

The net profit was influenced by the decrease in administrative expenses compared to the first quarter of 2020 and by the stronger currency exchange rate of the Ukrainian hryvnia, which had a significant impact on the financial income and costs of the group, against the euro. The net loss of the group decreased by



approximately 13% compared to the same period last year, amounting to 1 911 thousand euros, of which the share of owners of the parent amounted to 1 564 thousand euros (decrease 41%).

# Condensed consolidated interim statement of financial position

EUR'000

31 March 2021 31 December 2020

## ASSETS

### Current assets

Cash and cash equivalents	8,416	12,576
Trade and other receivables	42,352	50,029
Prepayments	2,558	2,678
Inventories	24,467	22,454
Total current assets	77,793	87,737

### Non-current assets

Other investments	26	26
Trade and other receivables	8,950	8,654
Investment property	5,639	5,639
Property, plant and equipment	17,903	18,053
Intangible assets	14,978	14,966
Total non-current assets	47,496	47,338
TOTAL ASSETS	125,289	135,075

## LIABILITIES

### Current liabilities

Borrowings	18,169	18,508
Trade payables	40,678	47,390



Other payables	8,618	11,814
Deferred income	10,312	7,738
Provisions	914	1,059
Total current liabilities	78,691	86,509
Non-current liabilities		
Borrowings	6,982	7,352
Trade payables	2,720	2,332
Provisions	1,753	1,647
Total non-current liabilities	11,455	11,331
TOTAL LIABILITIES	90,146	97,840
EQUITY		
Share capital	14,379	14,379
Own (treasury) shares	(660)	(660)
Share premium	635	635
Statutory capital reserve	2,554	2,554
Translation reserve	2,242	2,423
Retained earnings	12,979	14,543
Total equity attributable to owners of the parent	32,129	33,874
Non-controlling interests	3,014	3,361
TOTAL EQUITY	35,143	37,235
TOTAL LIABILITIES AND EQUITY	125,289	135,075

Condensed consolidated interim statement of comprehensive income

EUR '000	Q1 2021	Q1 2020	2020
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Revenue	48,987	54,924	296,082
Cost of sales	(49,079)	(53,736)	(285,086)
Gross profit (loss)	(92)	1,188	10,996
Marketing and distribution expenses	(107)	(128)	(528)
Administrative expenses	(1,471)	(1,799)	(7,073)
Other operating income	35	149	453
Other operating expenses	(23)	(53)	(273)
Operating profit (loss)	(1,658)	(643)	3,575
Finance income	405	56	2,995
Finance costs	(289)	(1,579)	(2,678)
Net finance income (costs)	116	(1,523)	317
Share of profit (loss) of equity-accounted investees	0	(30)	734
Profit (loss) before income tax	(1,542)	(2,196)	4,626
Income tax expense	(369)	0	(508)
Profit (loss) for the period	(1,911)	(2,196)	4,118
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	(181)	1,248	1,254



Total other comprehensive income (expense)	(181)	1,248	1,254
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(2,092)	(948)	5,372

Profit (loss) attributable to:

- Owners of the parent	(1,564)	(2,669)	2,466
- Non-controlling interests	(347)	473	1,652
Profit (loss) for the period	(1,911)	(2,196)	4,118

Comprehensive income (expense) attributable to:

- Owners of the parent	(1,745)	(1,421)	3,720
- Non-controlling interests	(347)	473	1,652
Comprehensive income (expense) for the period	(2,092)	(948)	5,372

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.05)	(0.08)	0.08
Diluted earnings per share (EUR)	(0.05)	(0.08)	0.08

Condensed consolidated interim statement of cash flows

EUR'000	Q1 2021	Q1 2020
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Cash flows from operating activities		
Cash receipts from customers	68,075	70,309
Cash paid to suppliers	(59,677)	(63,575)
VAT paid	(2,338)	(2,936)
Cash paid to and for employees	(6,215)	(6,116)
Income tax paid	(458)	0



Net cash used in operating activities	(613)	(2,318)
Cash flows from investing activities		
Paid on acquisition of property, plant and equipment	(43)	(58)
Proceeds from sale of property, plant and equipment	71	138
Loans provided	(5)	(5)
Repayments of loans provided	5	3
Acquisition of a subsidiary	0	(2)
Cash received on acquisition of a subsidiary	0	3,605
Dividends received	0	245
Interest received	2	3
Net cash from investing activities	30	3,929
Cash flows from financing activities		
Proceeds from loans received	5	393
Repayments of loans received	(606)	(891)
Dividends paid	(1,884)	0
Lease payments made	(806)	(737)
Interest paid	(277)	(276)
Other payments	(10)	0
Net cash used in financing activities	(3,578)	(1,511)
Net cash flow	(4,161)	100
Cash and cash equivalents at beginning of period	12,576	7,032



Effect of movements in foreign exchange rates	1	(3)
Increase (decrease) in cash and cash equivalents	(4,161)	100
Cash and cash equivalents at end of period	8,416	7,129

## Financial review

### Financial performance

Nordecon ended the first quarter of 2021 with a gross loss of EUR92 thousand (Q1 2020: a gross profit of EUR1,188 thousand) and a negative gross margin of 0.2% (Q1 2020: a positive gross margin of 2.2%). Due to the seasonal nature of the construction business, first-quarter results are affected by a large share of uncovered fixed costs, particularly in the Infrastructure segment. Above all, this applies to asphalt concrete production and laying in road construction where plant and equipment costs account for a major share of fixed costs. Although the Infrastructure segment improved its gross margin year on year, its loss had a significant impact on the group's overall performance. The segment's gross margin for the first quarter was negative at 5.7% compared with a negative margin of 12.8% in the same period last year. Margin improvement is mainly attributable to the large-scale earthworks. The Buildings segment earned a gross profit but its gross margin weakened almost twofold, dropping to 2.1% (Q1 2020: 4.5%). A key factor in the margin decline was one-off costs incurred on the completion of work on the Nysäter wind farm.

The group's administrative expenses for the first quarter of 2021 were EUR1,471 thousand. Compared to the first quarter of 2020, administrative expenses decreased by around 18% (Q1 2020: EUR1,799 thousand), mainly through a decline in personnel expenses. The ratio of administrative expenses to revenue (12 months rolling) decreased to 2.3% (Q1 2020: 2.8%).

The group's operating loss for the first quarter of 2021 was EUR1,658 thousand (Q1 2020: EUR643 thousand). EBITDA was negative at EUR811 thousand (Q1 2020: positive at EUR194 thousand).

The group's finance income and costs are affected by exchange rate fluctuations in the group's foreign markets. During the period, the exchange rate of the Ukrainian hryvnia strengthened against the euro by around 6.2% and the Swedish krona weakened against the euro by around 2%. Translation of the loans provided to the group's Ukrainian and Swedish subsidiaries in euros into the local currencies gave rise to an exchange gain of EUR346 thousand and an exchange loss of EUR28 thousand (Q1 2020: an exchange loss of EUR1,338 thousand).

The group incurred a net loss of EUR1,911 thousand (Q1 2020: EUR2,196 thousand). The loss attributable to owners of the parent, Nordecon AS, was EUR1,564 thousand (Q1 2020: EUR2,669 thousand).

### Cash flows

Operating activities produced a net cash outflow of EUR613 thousand in the first quarter of 2021 (Q1 2020: an outflow of EUR2,318 thousand). Negative operating



cash flow is typical of the first quarter and stems from the cyclical nature of the construction business. The period's larger fixed and preparation costs cause outflows to exceed inflows. Operating cash flow is also strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments, while the group has to make prepayments to subcontractors and suppliers. In particular, there has been growth in prepayments for materials. Cash inflow is also reduced by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities resulted in a net cash inflow of EUR30 thousand (Q1 2020: an inflow of 3,929 thousand). Cash flow was influenced by payments made to purchase property, plant and equipment of EUR43 thousand (Q1 2020: EUR58 thousand) and proceeds from the sale of property, plant and equipment of EUR71 thousand (Q1 2020: EUR138 thousand). Cash flow for the comparative period was strongly influenced by the transformation of Embach Ehitus OÜ from an associate into a subsidiary, which generated cash inflow of EUR3,605 thousand.

Financing activities generated a net cash outflow of EUR3,578 thousand (Q1 2020: an outflow of EUR1,511 thousand). The largest item was a dividend distribution of EUR1,884 thousand (Q1 2020: no dividend distribution). Loan and lease payments totalled EUR606 thousand and EUR806 thousand, respectively (Q1 2020: EUR891 thousand and EUR737 thousand, respectively). Interest payments amounted to EUR277 thousand (Q1 2020: EUR276 thousand).

The group's cash and cash equivalents as at 31 March 2021 totalled EUR8,416 thousand (31 March 2020: EUR7,129 thousand).

#### Key financial figures and ratios

Figure/ratio	Q1 2021	Q1 2020	Q1 2019	2020
Revenue (EUR'000)	48,987	54,924	34,524	296,082
Revenue change	(10.8)%	59.1%	(20.9)%	26.5%
Net profit (loss) (EUR'000)	(1,911)	(2,196)	(1,893)	4,118
Net profit (loss) attributable to owners of the parent (EUR'000)	(1,564)	(2,669)	(1,962)	2,466
Average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.05)	(0.08)	(0.06)	0.08
Administrative expenses to revenue	3.0%	3.3%	4.3%	2.4%
Administrative expenses to revenue (rolling)	2.3%	2.8%	3.1%	2.4%





EBITDA (EUR'000)	(811)	194	(1,018)	7,003
EBITDA margin	(1.7)%	0.4%	(2.9)%	2.4%
Gross margin	(0.2)%	2.2%	0.1%	3.7%
Operating margin	(3.4)%	(1.2)%	(5.1)%	1.2%
Operating margin excluding gain on asset sales	(3.4)%	(1.2)%	(5.2)%	1.2%
Net margin	(3.9)%	(4.0)%	(5.5)%	1.4%
Return on invested capital	(2.1)%	(3.3)%	(2.9)%	9.3%
Return on equity	(5.3)%	(6.7)%	(5.8)%	11.8%
Equity ratio	28.0%	28.2%	30.2%	27.6%
Return on assets	(1.8)%	(2.1)%	(1.8)%	3.3%
Gearing	27.8%	32.7%	38.4%	21.1%
Current ratio	0.99	0.95	0.97	1.01

31 March 2021 31March 2020 31 March 2019 31 Dec 2020

Order book (EUR'000)	281,431	229,018	170,509	215,796
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#### Performance by geographical market

The revenue contribution of foreign markets has decreased. Revenue generated outside Estonia accounted for around 4% of the group's total revenue for the first quarter of 2021 compared with 14% a year earlier.

	Q1 2021	Q1 2020	Q1 2019	2020
Estonia	96%	86%	90%	82%
Finland	2%	5%	4%	6%
Sweden	1%	8%	1%	11%
Ukraine	1%	1%	5%	1%

Revenue generated in Sweden and Finland decreased year on year due the



completion of large-scale contracts at the end of 2020 and the start of 2021. We continue to bid for new contracts and to prepare for new projects. The amount and proportion of revenue generated in Ukraine remained stable.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market. However, conditions in some of our chosen foreign markets are also volatile and strongly affect our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic goals.

#### Performance by business line

##### Segment revenues

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) as balanced as possible in the light of market developments because this helps diversify risks and provides better opportunities for continuing construction operations in more challenging circumstances where the volumes of one subsegment decline sharply while another begins to grow more rapidly.

The groups' revenue for the first quarter of 2021 was EUR48,987 thousand, 10.8% less than a year earlier when revenue amounted to EUR54,924 thousand. The decline is largely attributable to foreign operations whose revenue contribution dropped by 73%. Revenue generated in Estonia remained comparable to the first quarter of 2020. In segment terms, revenue from the Buildings segment decreased by 23% while revenue from the Infrastructure segment grew by 86% year on year.

The low volumes of infrastructure construction that affected the entire construction market also influenced the group's revenue structure. In the first quarter of 2021, the Buildings and the Infrastructure segment generated revenue of EUR37,833 thousand and EUR11,094 thousand, respectively. The corresponding figures for the first quarter of 2020 were EUR48,954 thousand and EUR5,959 thousand.

Revenue by operating segment	Q1 2021	Q1 2020	Q1 2019	2020
Buildings	80%	89%	82%	72%
Infrastructure	20%	11%	18%	28%

##### Subsegment revenues

In the Buildings segment, the revenues of all subsegments decreased year on year. The revenue contributions of the commercial, public and apartment buildings subsegments were practically equal and the revenue generated by the industrial and warehouse facilities subsegment continued to be modest.

The largest projects under construction in the commercial buildings subsegment were a seven-floor commercial building in Rotermann City and the LEED Gold compliant Alma Tomingas office building in Ülemiste City in Tallinn and a Lidl store in Tartu.

The order book of the public buildings subsegment has grown considerably, supporting the subsegment's annual revenue growth. During the period, the



subsegment's largest projects were Kindluse Kool - a basic school in Järveküla, a sports and health centre in Kohtla-Järve, a family health centre in Tartu, an extension to the office building of the Estonian Foreign Intelligence Service at Rahumäe tee in Tallinn and a barracks in Paldiski.

A significant share of the group's apartment building projects is located in Tallinn. During the period under review, the largest of them were the design and construction of the first two phases of the Kalaranna quarter and the design and construction of the Tiskreoja residential area on the western border of the city.

The group also continues to build its own housing development projects in Tallinn and Tartu (reported in the apartment buildings subsegment). During the period, work continued on the first two apartment buildings in the Mõisavahe homes project (<https://moisavahe.ee>) and the development of plots for Kivimäe Süda - a new residential area in the Nõmme district of Tallinn. In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The share of revenue generated by the industrial and warehouse facilities subsegment remained stable year on year. The group is working on smaller-scale projects with an average cost of EUR2 million. The largest projects of the period were a two-floor stock-office type commercial facility in the Tähetorni Technopark and a logistics centre for the packaging supplier Pakendikeskus AS in Tallinn.

Buildings breakdown	Q1 2021	Q1 2020	Q1 2019	2020
Commercial buildings	33%	36%	39%	23%
Public buildings	31%	30%	21%	37%
Apartment buildings	30%	27%	30%	28%
Industrial and warehouses	6%	7%	10%	12%

In the Infrastructure segment, road construction and maintenance continued to dominate with revenues almost twice larger than in the same period last year. A major share of its revenue resulted from contracts secured in 2020, the largest of which are the construction the Vão junction on the eastern border of Tallinn and the performance of earthworks on the Võõbu-Mäo section of the Tallinn-Tartu road. The group also continued to deliver road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

The group has won several contracts for the construction of small harbours. During the period, work was done on the construction of Salmistu harbour and Vasknarva boat harbour, which accounted for a major share of the revenue of the specialist engineering subsegment.

Infrastructure breakdown	Q1 2021	Q1 2020	Q1 2019	2020
Road construction	88%	77%	65%	74%



Specialist engineering	6%	14%	0%	4%
Environmental engineering	5%	4%	2%	1%
Other engineering	1%	5%	33%	21%

#### Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR281,431 thousand at 31 March 2021, a 23% increase year on year. In the first quarter of 2021, we signed new contracts of EUR104,882 thousand (Q1 2020: EUR43,325 thousand). Both figures (total order book and volume of contracts signed per quarter) are the largest in the group's history.

31 March 2021 31 March 2020 31 March 2019 31 Dec 2020

Order book (EUR'000)	281,431	229,018	170,509	215,796
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The proportions of the two main operating segments in the group's order book have not changed substantially: the Buildings segment still dominates, accounting for 80% while the Infrastructure accounts for 20% of the total order book (31 March 2020: 81% and 19%, respectively). Compared with 31 March 2020, the order book of the Buildings segment has grown by 22% and that of the Infrastructure segment by 27%.

A significant share of new contracts was secured by the Buildings segment, the largest of them including:

- \* the extension and reconstruction of the main building of the Estonian Foreign Intelligence Service of around EUR42,300 thousand;
- \* the construction of an IKEA concept store in Rae rural municipality near Tallinn of around EUR23,000 thousand;
- \* the construction of apartment buildings in the Uusmäe residential area in the Saku small town near Tallinn of around EUR3,400 thousand.

A large share of the order book of the Buildings segment is also made up of contracts secured in prior periods, the largest of them including the construction of a dairy complex for E?Piim in Paide, phase III of the Maarjamõisa Medical Campus of the Tartu University Hospital, the LEED Gold compliant Alma Tomingas office building in Ülemiste City in Tallinn and the first two phases of apartment buildings in the Kalaranna quarter in Tallinn.

Although new contracts were also signed in other subsegments of the Infrastructure segment, the road construction and maintenance order book is still the largest, accounting for 81% of the segment's order book. The largest contracts signed during the period include:

- \* the construction of 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road with a cost of EUR12,600 thousand;
- \* additional earthworks on the Võõbu-Mäo section of the Tallinn-Tartu road with a cost of around EUR3,900 thousand;



- \* the construction of a wind farm in the Targale rural municipality in Latvia - the total cost of the contract in which Nordecon Betoon OÜ is one of the joint contractors is around EUR13,500 thousand;
- \* expansion of berths in Roomassaare harbour on the island of Saaremaa with a cost of around EUR2,600 thousand.

Based on the size of the group's order book, including the share of work to be performed in 2022 and 2023, and fierce competition in the general contracting market, the group's management expects that in 2021 the group's revenue will decline somewhat compared to 2020. Customers are increasingly expecting that general contractors should lower their prices but the input prices charged by subcontractors have not decreased as anticipated. This has put profit margins under strong pressure. In an environment of stiff competition, we have avoided taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the group's results. Our main focus is on cost control as well as pre-construction and design activities where we can harness our professional competitive advantages.

## People

### Employees and personnel expenses

The group had, on average, 675 employees, including 422 engineers and technical personnel, in the first quarter of 2021. Headcount decreased by around 3% year on year.

Average number of employees at group entities (including the parent and the subsidiaries):

	Q1 2021	Q1 2020	Q1 2019	2020
ETP	422	429	391	450
Workers	253	266	271	258
Total average	675	695	662	708

The group's personnel expenses for the first quarter of 2021, including all taxes, totalled EUR5,931 thousand compared with EUR6,660 thousand for the same period last year. Personnel expenses decreased by around 11% year on year, mainly through a decrease in the number of employees, a reduction of salaries carried out in the middle of 2020 and a decline in the share of performance bonuses.

The service fees of the members of the council of Nordecon AS for the first quarter of 2021 amounted to EUR37 thousand and associated social security charges totalled EUR12 thousand (Q1 2020: EUR47 thousand and EUR15 thousand, respectively). The service fees of the members of the board of Nordecon AS amounted to EUR99 thousand and associated social security charges totalled EUR33 thousand (Q1 2020: EUR132 thousand and EUR44 thousand, respectively).



## Labour productivity and labour cost efficiency

We measure the efficiency of our operating activities using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses incurred:

	Q1 2021	Q1 2020	Q1 2019	2020
Nominal labour productivity (rolling), (EUR '000)	417.4	365.8	315.5	418.2
Change against the comparative period, %	14.1%	16%	(1.5)%	22.8%
Nominal labour cost efficiency (rolling), (EUR)	11.0	9.6	9.2	10.9
Change against the comparative period, %	14.9%	4.3%	(8.4)%	18.1%

The group's nominal labour productivity and nominal labour cost efficiency improved year on year. The rise is attributable to growth in revenue generated in the past four quarters.

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