

Company Nordecon AS
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Attachments:

- Nordecon_Interim_report_Q2_2021.pdf (<http://oam.fi.ee/en/download?id=5675>)
- NCN investor presentation Q2_2021.pdf (<http://oam.fi.ee/en/download?id=5676>)
- Nordecon_Aruanne_2Q_2021.pdf (<http://oam.fi.ee/en/download?id=5677>)
- NCN investor presentation Q2_2021.pdf (<http://oam.fi.ee/en/download?id=5678>)

Currency

Title 2021 II quarter and 6 months consolidated interim report (unaudited)

The results for the first six months of 2021 are characterized by a slight decrease in operating volumes, a decrease in profitability and a continued increase in the order book compared to the same period of the previous year.

The Nordecon Group's backlog increased by 44% compared to the same period in 2020. As at 31 June 2021, the volume of the order book amounted to 269,448 thousand euros. In the second quarter of 2021, new contracts worth a total of 69,938 thousand euros were entered into, to which another 81,771 thousand euros worth of new contracts were added in July. A number of large-scale contracts will also provide a significant construction volume for 2022 and 2023 as well.

The Group's sales revenue for the first half of 2021 was 117,966 thousand euros, which is a decrease of approximately 14% compared to the same period last year. An important part of the decrease in sales revenue comes from foreign markets, but a slight decrease also took place in Estonia. By segments, compared to the same period last year, sales revenue has decreased in the buildings segment (19%) and increased in the infrastructure segment (9%). The decrease in the sales revenue of the buildings segment is affected by the situation where the order book includes several large-scale design and construction contracts, where the long design period precedes the construction activities.

The Group's gross profit has decreased compared to the same period last year, amounting to 1.1% in the first half of the year (H1 2020: 4.4%) and 2.0% in the second quarter (Q2 2020: 5.9%). The main factor influencing the result of the first half of the buildings segment is the significant increase in input prices, which mainly affects the profitability of contracts concluded in 2020. At the end of the second quarter, the prices of raw materials and supplies somehow stabilized, which is expected to reduce the negative impact of rising input prices in the coming quarters. The result is also affected by the significant one-off costs related to the completion of the construction of the Nysäter wind farm. A decline in asphalt concrete production and laying works, resulting from



the nature of the infrastructure segment's order book, has increased the share of uncovered fixed costs affecting thereby the profitability of the segment. In addition to the above-mentioned increase in input prices, the performance of both segments is also affected by material supply problems, which put pressure on the completion schedules of construction contracts. In the light of the general price increase, the Group has reduced general administrative expenses, which have decreased by approximately 27% compared to the 6 months of the previous year.

There were no significant events in foreign markets in Finland and Ukraine. In Sweden, however, on 22 July 2021, Swencn AB applied to the Nacka District Court in Stockholm to initiate restructuring proceedings. The purpose of the restructuring is to ensure equal treatment of creditors and the continuation of Swencn AB's operations. The initiation of the restructuring does not affect the economic activities of other companies in the Nordecon Group, the set goals or their fulfilment.

Condensed consolidated interim statement of financial position

EUR '000 30 June 2021 31 December 2020

ASSETS

Current assets

Cash and cash equivalents	7,732	12,576
Trade and other receivables	55,790	50,029
Prepayments	3,425	2,678
Inventories	28,942	22,454
Total current assets	95,889	87,737

Non-current assets

Other investments	26	26
Trade and other receivables	8,811	8,654
Investment property	5,639	5,639
Property, plant and equipment	18,110	18,053
Intangible assets	14,995	14,966
Total non-current assets	47,581	47,338



TOTAL ASSETS	143,470	135,075
LIABILITIES		
Current liabilities		
Borrowings	19,002	18,508
Trade payables	55,044	47,390
Other payables	9,944	11,814
Deferred income	13,698	7,738
Provisions	1,118	1,059
Total current liabilities	98,806	86,509
Non-current liabilities		
Borrowings	7,090	7,352
Trade payables	3,563	2,332
Provisions	1,593	1,647
Total non-current liabilities	12,246	11,331
TOTAL LIABILITIES	111,052	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	2,829	2,423
Retained earnings	10,503	14,543



Total equity attributable to owners of the parent	30,240	33,874
Non-controlling interests	2,178	3,361
TOTAL EQUITY	32,418	37,235
TOTAL LIABILITIES AND EQUITY	143,470	135,075

Condensed consolidated interim statement of comprehensive income

EUR'000	H1 2021	Q2 2021	H1 2020	Q2 2020	2020
Revenue	117,966	68,979	136,798	81,874	296,082
Cost of sales	(116,660)	(67,580)	(130,791)	(77,055)	(285,086)
Gross profit	1,306	1,399	6,007	4,819	10,996
Marketing and distribution expenses	(214)	(108)	(202)	(74)	(528)
Administrative expenses	(2,833)	(1,362)	(3,860)	(2,061)	(7,073)
Other operating income	127	92	178	29	453
Other operating expenses	(29)	(6)	(110)	(57)	(273)
Operating profit (loss)	(1,643)	15	2,013	2,656	3,575
Finance income	537	132	249	193	2,995
Finance costs	(665)	(376)	(1,241)	338	(2,678)
Net finance income (costs)	(128)	(244)	(992)	531	317
Share of profit of equity-accounted investees	0	0	479	510	734
Profit (loss) before income tax	(1,771)	(229)	1,500	3,697	4,626
Income tax expense	(619)	(250)	(81)	(81)	(508)



Profit (loss) for the period	(2,390)	(479)	1,419	3,616	4,118
Other comprehensive income (expense):					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	406	587	815	(434)	1,254
Total other comprehensive income (expense)	406	587	815	(434)	1,254
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(1,984)	108	2,234	3,182	5,372
Profit (loss) attributable to:					
- Owners of the parent	(2,148)	(584)	(156)	2,513	2,466
- Non-controlling interests	(242)	105	1,575	1,103	1,652
Profit (loss) for the period	(2,390)	(479)	1,419	3,616	4,118
Comprehensive income (expense) attributable to:					
- Owners of the parent	(1,742)	3	659	2,079	3,720
- Non-controlling interests	(242)	105	1,575	1,103	1,652
Comprehensive income (expense) for the period	(1,984)	108	2,234	3,182	5,372

Earnings per share attributable to owners of the parent:



Basic earnings per share (EUR)	(0.07)	(0.02)	(0.01)	0.08	0.08
Diluted earnings per share (EUR)	(0.07)	(0.02)	(0.01)	0.08	0.08

Condensed consolidated interim statement of cash flows

EUR'000	H1 2021	H1 2020
Cash flows from operating activities		
Cash receipts from customers	142,892	154,207
Cash paid to suppliers	(124,977)	(132,626)
VAT paid	(4,387)	(6,055)
Cash paid to and for employees	(13,075)	(13,658)
Income tax paid	(616)	(81)
Net cash from (used in) operating activities	(163)	1,787
Cash flows from investing activities		
Paid on acquisition of property, plant and equipment	(104)	(102)
Proceeds from sale of property, plant and equipment	158	165
Paid on acquisition of intangible assets	(16)	0
Acquisition of a subsidiary	0	(2)
Cash received on acquisition of a subsidiary	0	3,605
Loans provided	(25)	(14)
Repayments of loans provided	60	21
Dividends received	0	251
Interest received	4	5
Net cash from investing activities	77	3,929



Cash flows from financing activities

Proceeds from loans received	1,418	1,228
Repayments of loans received	(1,243)	(2,077)
Lease payments made	(1,574)	(1,487)
Interest paid	(545)	(508)
Dividends paid	(2,814)	(472)
Net cash used in financing activities	(4,758)	(3,316)

Net cash flow	(4,844)	2,400
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Cash and cash equivalents at beginning of period	12,576	7,032
Effect of movements in foreign exchange rates	0	(11)
Increase (decrease) in cash and cash equivalents	(4,844)	2,400
Cash and cash equivalents at end of period	7,732	9,421

Financial review

Financial performance

Nordecon ended the first half of 2021 with a gross profit of EUR1,306 thousand (H1 2020: EUR6,007 thousand) and gross margins that were considerably lower than a year earlier: 1.1% for the first half-year (H1 2020: 4.4%) and 2.0% for the second quarter (Q2 2020: 5.9%). Gross margin dropped in both main operating segments. The gross margins of the Buildings segment were 2.5% for the half-year and 2.8% for the second quarter compared with 5.0% and 5.5% in the same periods last year. The segment's half-year results were strongly influenced by one-off expenses incurred in connection with the completion of work on the Nysäter wind farm but the key factor was a significant rise in input prices, which affects mainly the profitability of contracts secured in 2020. Materials prices began to stabilise at the end of the second quarter and, if the trend continues, the downsides of a rise in input prices should decrease in the following quarters. The Infrastructure segment ended the first half of 2021 with a slight loss and thus a negative gross margin of 0.5% (H1 2020: a positive gross margin of 3.4%). Its gross margin for the second quarter was 3.2% (Q2 2020: 8.7%). A decline in asphalt concrete production and laying works has increased the share



of uncovered fixed costs. The performance of both segments was undermined by a surge in input prices as well as supply-chain disruptions which are making it difficult to meet contractual delivery dates.

The group's administrative expenses for the first half of 2021 were EUR2,833 thousand. Compared to the first half of 2020, administrative expenses decreased by around 27% (H1 2020: EUR3,860 thousand), mainly through a decline in personnel expenses. The ratio of administrative expenses to revenue (12 months rolling) decreased to 2.2% (H1 2020: 2.8%).

The group's operating loss for the first half of 2021 was EUR1,643 thousand (H1 2020: an operating profit of EUR2,013 thousand). EBITDA amounted to EUR92 thousand (H1 2020: EUR3,694 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 8% while the exchange rate of the Swedish krona/euro exchange rate did not change significantly. 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 EUR408 thousand in total (H1 2020: the exchange loss on movements in the exchange rate of the Ukrainian hryvnia was EUR704 thousand and the exchange gain on movements in the exchange rate of the Swedish krona was EUR132 thousand)).

The group incurred a net loss of EUR2,390 thousand (H1 2020: a net profit of EUR1,419 thousand). The loss attributable to owners of the parent, Nordecon AS, was EUR2,148 thousand (H1 2020: a loss of EUR156 thousand).

Cash flows

Operating activities produced a net cash outflow of EUR163 thousand in the first half of 2021 (H1 2020: an inflow of EUR1,787 thousand). Operating cash flow is 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 rapid year-on-year 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 EUR77 thousand (H1 2020: an inflow of 3,929 thousand). Cash flow was strongly influenced by investments made in the acquisition of property, plant and equipment and intangible assets of EUR120 thousand (H1 2020: EUR102 thousand) and proceeds from the sale of property, plant and equipment of EUR158 thousand (H1 2020: EUR165 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, and dividends received of EUR251 thousand.

Financing activities generated a net cash outflow of EUR4,758 thousand (H1 2020: an outflow of EUR3,316 thousand). The largest items were loan and lease payments and dividends paid. Proceeds from loans received totalled EUR1,418 thousand, consisting of the use of the overdraft facility and development loans (H1 2020: EUR1,228 thousand). Repayments of loans received totalled EUR1,243 thousand, consisting of regular repayments of long-term investment and development loans (H1 2020: EUR2,077 thousand) Lease payments totalled EUR1,574 thousand (H1 2020:



EUR1,487 thousand). Dividends paid in the first half of 2021 amounted to EUR2,814 thousand (H1 2020: EUR472 thousand).

The group's cash and cash equivalents at 30 June 2021 totalled EUR7,732 thousand (30 June 2020: EUR9,421 thousand).

Key financial figures and ratios

Figure/ratio	H1 2021	H1 2020	H1 2019	2020
Revenue (EUR'000)	117,966	136,798	100,441	296,082
Revenue change	(14)%	36%	(5)%	26.5%
Net profit (loss) (EUR'000)	(2,390)	1,419	(574)	4,118
Net profit (loss) attributable to owners of the parent (EUR'000)	(2,148)	(156)	(793)	2,466
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.07)	0.00	(0.03)	0.08
Administrative expenses to revenue	2.4%	2.8%	3.0%	2.4%
Administrative expenses to revenue (rolling)	2.2%	2.8%	2.9%	2.4%
EBITDA (EUR'000)	92	3,694	1,281	7,003
EBITDA margin	0.1%	2.7%	1.3%	2.4%
Gross margin	1.1%	4.4%	3.3%	3.7%
Operating margin	(1.4)%	1.5%	(0.2)%	1.2%
Operating margin excluding gain on asset sales	(1.4)%	1.5%	(0.3)%	1.2%
Net margin	(2.0)%	1.0%	(0.6)%	1.4%
Return on invested capital	(2.1)%	3.3%	0.6%	9.3%
Return on equity	(6.9)%	4.1%	(1.8)%	11.8%
Equity ratio	22.6%	25.8%	25.5%	27.6%



Return on assets	(1.7)%	1.1%	(0.5)%	3.3%
Gearing	31.4%	26.8%	36.7%	21.1%
Current ratio	0.97	1.00	0.93	1.01

30 June 2021 30 June 2020 30 June 2019 31 Dec 2020

Order book (EUR'000)	269,448	187,018	179,691	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 half of 2021 compared with 12% a year earlier.

	H1 2021	H1 2020	H1 2019	2020
Estonia	96%	88%	91%	82%
Finland	3%	5%	4%	6%
Sweden	0%	6%	2%	11%
Ukraine	1%	1%	3%	1%

Revenue generated in the Swedish market decreased significantly year on year, dropping below 1% of the group's total revenue, while the revenue contribution of the Ukrainian market remained comparable to a year earlier. In Finland, we continue to focus on the provision of subcontracting services in the concrete works segment.

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 half of 2021 was EUR117,966 thousand, around 14% less than a year earlier when revenue amounted to EUR136,798 thousand. The decline is largely attributable to revenue from foreign operations that dropped by 68%. Revenue generated in Estonia decreased by 6% compared to the first half of 2020. In segment terms, revenue from the Buildings segment decreased by 19% while revenue from the Infrastructure segment grew by 9% year on year. In a situation where the order book of the Buildings has grown and includes large-scale design and construction contracts, the segment's revenue decline is partly attributable to the fact that design activities, which precede construction operations, are time-consuming.

The low volumes of infrastructure construction that affected the entire construction market also influenced the group's revenue structure. In the first half of 2021, the Buildings and the Infrastructure segment generated revenue of EUR91,557 thousand and EUR26,217 thousand, respectively. The corresponding figures for the first half of 2020 were EUR112,607 thousand and EUR24,106 thousand.

Revenue by operating segment	H1 2021	H1 2020	H1 2019	2020
Buildings	78%	81%	74%	72%
Infrastructure	22%	19%	26%	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 an IKEA store in Rae rural municipality near Tallinn.

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 a basic school in Järveküla, an upper secondary school on the island of Saaremaa, the Medical Campus of the Tartu University Hospital, a family health centre in Tartu, an extension to the building of the Estonian Foreign Intelligence Service in 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 housing estate 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 construction of the first two apartment buildings in the Mõisavahe homes project (<https://moisavahe.ee>) and the development of plots for Kivimäe Süda - a new housing estate in the Nõmme district in 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. We are working mostly on small-scale projects with an average cost of EUR2 million. The largest projects of the period were a two-floor warehouse and office building in the Tähetorni Technopark and a logistics centre for the packaging supplier Pakendikeskus AS in Tallinn.

Buildings segment	H1 2021	H1 2020	H1 2019	2020
Commercial buildings	31%	30%	35%	23%
Public buildings	30%	34%	24%	37%
Apartment buildings	30%	27%	33%	28%
Industrial and warehouses	9%	9%	8%	12%

In the Infrastructure segment, the largest revenue contributor is the road construction and maintenance subsegment, which increased its revenue year on 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. We 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 and the expansion of berths in Roomassaare harbour on the island of Saaremaa, which accounted for a major share of the revenue of the specialist engineering subsegment.

Infrastructure segment	H1 2021	H1 2020	H1 2019	2020
Road construction	86%	80%	77%	74%
Specialist engineering	5%	5%	0%	4%
Environmental engineering	5%	1%	3%	1%
Other engineering	4%	14%	20%	21%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR269,448 thousand at 30 June 2021, a 44% increase year on year. In the second quarter, we signed new contracts of EUR69,938 thousand (Q2 2020: EUR47,850 thousand).

Between the reporting date (30 June 2021) and the date of release of this report, group companies have secured additional construction contracts in the region of EUR81,771 thousand, the largest of which include:



- * the design and construction of apartment buildings with commercial space in the Vektor development project at Pärnu mnt 137 in Tallinn with an approximate cost of EUR38,000 thousand;
- * the construction of an office building at Ahtri 4 in Tallinn with an approximate cost of EUR16,700 thousand.

30 June 2021 30 June 2020 30 June 2019 31 Dec 2020

 Order book (EUR'000) 269,448 187,018 179,691 215,796

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 79%, while the Infrastructure accounts for 21% of the total order book (30 June 2020: 76% and 24%, respectively). Compared with 30 June 2020, the order book of the Buildings segment has grown by 50% and that of the Infrastructure segment by 27%.

A major share of the value of new contracts signed in the second quarter was made up of contracts secured by the Buildings segment, the largest of which were:

- * the construction of concrete structures for the Kemi bioproduct mill in Northern Finland with an approximate cost of EUR6,800 thousand.
- * the design and construction of the Luccaranna housing estate to be built near the sea on the western border of Tallinn with an approximate cost of EUR25,700 thousand.
- * the design and construction of phase two of the Tiskreoja housing estate to be built on the western border of Tallinn with an approximate cost of EUR10,600 thousand.

A major share of the order book of the Buildings segment is also made up of contracts secured in the first quarter of 2021 and earlier periods, the largest of them including the construction of the main building of the Estonian Foreign Intelligence Service in Tallinn, an IKEA store in Rae rural municipality near Tallinn, 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.

In the Infrastructure segment, the order book of the road construction and maintenance subsegment is still the largest, accounting for 87% of the segment's total order book. The largest contracts signed in the second quarter were:

- * the design and construction of the outdoor space around Terminal D in Old City Harbour with an approximate cost of EUR5,900 thousand;
- * the reconstruction and rehabilitation of national roads in Hiiu county with an approximate cost of EUR3,500 thousand.

The order book also includes some large-scale contracts awarded to the group in the first quarter of 2021: the construction of 2+2 passing lanes on the



Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road, additional earthworks on the Võõbu-Mäo section of the Tallinn-Tartu road, the construction of a wind farm in the Targale rural municipality in Latvia and expansion of berths in Roomassaare harbour on the island of Saaremaa.

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. The current situation along with the rise in input prices and supply-chain disruptions, which affect mainly contracts secured in 2020, have 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 employed, on average, 680 people, including 426 engineers and technical personnel, in the first half of 2021. Headcount decreased by around 4% year on year.

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

	H1 2021	H1 2020	H1 2019	2020
ETP	426	442	405	450
Workers	254	265	273	258
Total average	680	707	678	708

The group's personnel expenses for the first half of 2021, including all taxes, totalled EUR12,020 thousand compared with EUR13,703 thousand for the same period last year. Personnel expenses decreased by around 12% 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 half of 2021 amounted to EUR75 thousand and associated social security charges totalled EUR25 thousand (H1 2020: EUR93 thousand and EUR31 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to EUR182 thousand and associated social security charges totalled EUR60 thousand (H1 2020: EUR266 thousand and EUR88 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:

	H1 2021	H1 2020	H1 2019	2020

Nominal labour productivity (rolling), (EUR '000)	403.3	385.7	321.5	422.9
Change against the comparative period, %	4.6%	20.0%	(1.8)%	24.2%
Nominal labour cost efficiency (rolling), (EUR)	10.9	9.7	9.3	10.9
Change against the comparative period, %	12.7%	3.7%	(6.3)%	18.0%

The group's nominal labour productivity and nominal labour cost efficiency improved year on year, mainly through a decline in the number of staff and personnel expenses.

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