

Company Nordecon AS  
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Attachments:

- Nordecon\_Interim\_report\_Q4\_2021.pdf (<http://oam.fi.ee/en/download?id=6018>)
- NCN investor presentation Q4\_2021.pdf (<http://oam.fi.ee/en/download?id=6019>)
- Nordecon\_Aruanne\_4Q\_2021.pdf (<http://oam.fi.ee/en/download?id=6020>)
- NCN investor presentation Q4\_2021.pdf (<http://oam.fi.ee/en/download?id=6021>)

Currency

Title 2021 IV quarter and 12 months consolidated interim report (unaudited)

The key words for 2021 are the rapid recovery of the construction market volumes that fell in 2020 and the sharp rise in input prices, which put strong pressure on the cost of previously concluded long-term construction contracts. The whole year has been characterized by difficult availability of materials and a large-scale rise in prices, to which in the second half of the year was added the accelerating growth of labour costs.

Gerd Müller, Chairman of the Management Board of Nordecon AS:

"The year 2021 was undoubtedly full of challenges for the Nordecon Group. As the largest market participant, we have had to bear the same proportion of market risks. Given the turbulence caused by the pandemic, our people have done a very good job and we have been able to hand over the objects on time. The difficult market situation has put pressure on us to make additional efforts to develop and deploy our digital solutions. We can see that the key to more efficient process management is for the general contractor to achieve greater efficiency. Dealing with the price shock in the construction market tested the results of both of our main operating segments. Despite the extremely difficult economic environment for the construction service provider, we were able to achieve operating profit in our home market in Estonia. All reported losses have been earned from non-recurring losses in the Swedish market. "

The Group's gross profitability decreased compared to the previous year, amounting to 1.4% (2020: 3.7%). Profitability was mainly affected by rising input prices and supply problems. In 2021, the Group carried out a large number of construction contracts concluded in 2020, which did not yet take into account the necessary flexibility due to the rapid change in the market situation. Another important factor is the small share of asphalt concrete production and installation due to the nature of the Group's work portfolio, due to which the fixed costs are not covered to a greater extent than usual.

In the Swedish market, the group made significant losses. Expenses related to



the completion of construction works of apartment buildings and wind farms totalled 3,346 thousand euros, to which was added a credit loss from the inclusion of receivables from the customer in the amount of 2,144 thousand euros.

The Group's sales revenue in 2021 amounted to 288,534 thousand euros (2020: 296,082 thousand euros). Compared to the previous year, Estonia's sales revenue has increased by 13%, the reason for the 2.5% decrease in total sales revenue is the decrease in sales volumes in foreign markets.

The volume of unfinished construction contracts entered into by the Group's companies is 266,856 thousand euros as of 31 December 2021, which is an increase of approximately 24% compared to the previous year. In 2021, new contracts totalling 314,758 thousand euros were entered into. Considering the size of the portfolio of unfinished works, including the volume to be transferred to 2023, an increase in operating volumes can be forecast in 2022.

#### Condensed consolidated interim statement of financial position

EUR '000	31 December 2021	31 December 2020
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ASSETS		
Current assets		
Cash and cash equivalents	9,031	12,576
Trade and other receivables	48,091	50,029
Prepayments	4,947	2,638
Inventories	25,637	22,454
Total current assets	87,706	87,697
Non-current assets		
Investments in equity-accounted investees	0	0
Other investments	76	26
Trade and other receivables	9,206	8,654
Investment property	5,599	5,639
Property, plant and equipment	17,433	18,053
Intangible assets	15,051	14,966
Total non-current assets	47,365	47,338



TOTAL ASSETS	135,071	135,035
LIABILITIES		
Current liabilities		
Borrowings	16,289	18,508
Trade payables	57,287	46,932
Other payables	7,496	12,232
Deferred income	11,539	7,738
Provisions	707	1,059
Total current liabilities	93,318	86,469
Non-current liabilities		
Borrowings	7,405	7,352
Trade payables	4,178	2,332
Provisions	2,044	1,647
Total non-current liabilities	13,627	11,331
TOTAL LIABILITIES	106,945	97,800
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	1,948	2,423
Retained earnings	6,341	14,543
Total equity attributable to owners of the		



parent	25,197	33,874
Non-controlling interests	2,929	3,361
TOTAL EQUITY	28,126	37,235
TOTAL LIABILITIES AND EQUITY	135,071	135,035

Condensed consolidated interim statement of comprehensive income

EUR'000	Q4 2021	12M 2021	Q4 2020	12M 2020
Revenue	79,640	288,534	78,418	296,082
Cost of sales	(80,514)	(284,513)	(76,937)	(285,086)
Gross profit (loss)	(874)	4,021	1,481	10,996
Marketing and distribution expenses	(165)	(559)	(142)	(528)
Administrative expenses	(1,786)	(6,053)	(1,761)	(7,073)
Other operating income	321	519	180	453
Other operating expenses	(2,171)	(2,264)	(135)	(273)
Operating profit (loss)	(4,675)	(4,336)	(377)	3,575
Finance income	81	958	2,725	2,995
Finance costs	(378)	(1,320)	(576)	(2,678)
Net finance income (costs)	(297)	(362)	2,149	317
Share of profit (loss) of equity-accounted investees	0	0	(232)	734
Profit (loss) before income tax	(4,972)	(4,698)	1,540	4,626
Income tax expense	(166)	(808)	(426)	(508)



Profit (loss) for the period	(5,138)	(5,506)	1,114	4,118
Other comprehensive income (expense):				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	85	(475)	(121)	1,254
Total other comprehensive income (expense)	85	(475)	(121)	1,254
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(5,053)	(5,981)	993	5,372
Profit (loss) attributable to:				
- Owners of the parent	(5,514)	(6,310)	1,426	2,466
- Non-controlling interests	376	804	(312)	1,652
Profit (loss) for the period	(5,138)	(5,506)	1,114	4,118
Comprehensive income attributable to:				
- Owners of the parent	(5,429)	(6,785)	1,305	3,720
- Non-controlling interests	376	804	(312)	1,652
Comprehensive income (expense) for the period	(5,053)	(5,981)	993	5,372

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.17)	(0.20)	0.05	0.08
Diluted earnings per share (EUR)	(0.17)	(0.20)	0.05	0.08

Condensed consolidated interim statement of cash flows

EUR '000

12M 2021

12M 2020



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Cash flows from operating activities

Cash receipts from customers	352,378	345,552
Cash paid to suppliers	(310,183)	(305,500)
VAT paid	(8,140)	(9,909)
Cash paid to and for employees	(25,893)	(27,409)
Income tax paid	(797)	(291)
Net cash from operating activities	7,365	2,443

Cash flows from investing activities

Paid on acquisition of property, plant and equipment	(232)	(254)
Paid on acquisition of intangible assets	(19)	(17)
Proceeds from sale of property, plant and equipment	489	332
Cash received on acquisition of a subsidiary	0	3,605
Proceeds from sale of an investment in an associate	0	3,596
Loans provided	(34)	(17)
Repayments of loans provided	96	44
Dividends received	0	974
Interest received	12	23
Net cash from investing activities	312	8,286

Cash flows from financing activities

Proceeds from loans received	1,922	2,026
Repayments of loans received	(3,766)	(2,629)
Lease payments made	(3,318)	(3,086)



Interest paid	(1,051)	(927)
Dividends paid	(5,000)	(472)
Other payments	(12)	(77)
Net cash used in financing activities	(11,225)	(5,165)

Net cash flow	(3,548)	5,564
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Cash and cash equivalents at beginning of period	12,576	7,032
Effect of movements in foreign exchange rates	3	(20)
Increase (decrease) in cash and cash equivalents	(3,548)	5,563
Cash and cash equivalents at end of period	9,031	12,576

#### Financial review

#### Financial performance

The Nordecon group ended 2021 with a gross profit of EUR4,021 thousand (2020: EUR10,996 thousand) and a gross margin of 1.4% (2020: 3.7%). Gross margins decreased in both operating segments. The gross margin of the Buildings segment was 2.0% for the year and a negative 0.7% for the fourth quarter (2020: 3.6%; Q4 2020: 0.7%). The figures of the Infrastructure segment were 1.0% for the year and a negative 1.4% for the fourth quarter (2020: 5.1%; Q4 2020: 6.1%). The gross margin of the Buildings segment was mainly influenced by:

- \* Growth in input prices, which mainly affected contracts signed in 2020. The prices of raw materials and supplies stabilised somewhat in the third quarter but soaring energy prices and labour costs had a strong impact on fourth-quarter inputs.
- \* Supply chain disruptions, which continue to put pressure on the timely completion of construction projects. Extensions of contract terms cause additional costs.
- \* One-off losses in the Swedish market. The costs related to the completion of two projects (the Nysäter wind farm and an apartment building) totalled EUR3,346 thousand.

The performance of the Infrastructure segment was also influenced by the upswing in materials prices, especially the prices of metal and energy carriers, which increased the production cost of asphalt concrete. Another factor was the order book structure: the share of projects involving the production and laying of



asphalt concrete was small and thus the share of uncovered fixed costs was higher than usual.

The group's administrative expenses for 2021 were EUR6,053 thousand. Compared with 2020, administrative expenses decreased by around 14% (2020: EUR7,073 thousand), mainly through a decline in personnel expenses. The ratio of administrative expenses to revenue (12 months rolling) was 2.1% (2020: 2.4%).

The group ended 2021 with an operating loss of EUR4,336 thousand (2020: operating profit of EUR3,575 thousand). Operating profit was affected by the recognition of credit losses of EUR2,144 thousand. A major share of the credit losses resulted from expensing the receivables due from a customer of the Swedish subsidiary. EBITDA was negative at EUR797 thousand and EBITDA margin was negative at 0.3% (2020: positive at EUR7,003 thousand and 2.4%).

The group's finance income and costs are affected by exchange rate fluctuations in the group's foreign markets. During the period, the Ukrainian hryvnia strengthened against the euro by around 12% while the Swedish krona strengthened against the euro by around 2%. Translation of the loans provided to the group's subsidiaries in euros into the Ukrainian hryvnias and Swedish krona gave rise to exchange gains of EUR711 thousand and EUR16 thousand, respectively (2020: an exchange loss of EUR1,485 thousand and an exchange gain of EUR24 thousand, respectively). Finance income for 2020 was also influenced by the sale of the group's investment in the associate Pigipada OÜ, which produced sales gain of EUR2,749 thousand.

The group incurred a net loss of EUR5,506 thousand (2020: earned a net profit of EUR4,118 thousand). The loss attributable to owners of the parent, Nordecon AS, was EUR6,310 thousand (2020: a profit of EUR2,466 thousand).

#### Cash flows

Operating activities produced a net cash inflow of EUR7,365 thousand in 2021 (2020: EUR2,443 thousand). The key factor that affects operating cash flow is the mismatch between the settlement terms agreed with customers and suppliers. 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 materials suppliers. The share of prepayments increased in 2021 due to the COVID-19 pandemic. 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 EUR312 thousand (2020: 8,286 thousand). Investments in the acquisition of property, plant and equipment and intangible assets totalled EUR251 thousand (2020: EUR271 thousand) and proceeds from the sale of property, plant and equipment amounted to EUR489 thousand (2020: EUR332 thousand). Cash flow for the comparative period was strongly influenced by the reclassification of Embach Ehitus OÜ from an associate into a subsidiary, which generated cash inflow of EUR3,605 thousand, and the sale of the investment in the associate Pigipada OÜ, which generated cash inflow of EUR3,596 thousand. Financing activities generated a net cash outflow of EUR11,225 thousand (2020: an outflow of EUR5,165 thousand). The largest items were loan and lease payments. Proceeds from loans received totalled EUR1,922 thousand, consisting of the use of





overdraft facilities and development loans (2020: EUR2,026 thousand). Repayments of loans received totalled EUR3,766 thousand, consisting of regular repayments of long-term investment and development loans (2020: EUR2,629 thousand). Lease payments totalled EUR3,318 thousand (2020: EUR3,086 thousand). Dividends paid in 2021 amounted to EUR5,000 thousand (2020: EUR472 thousand). The group's cash and cash equivalents at 31 December 2021 totalled EUR9,031 thousand (31 December 2020: EUR12,576 thousand).

#### Key financial figures and ratios

Figure/ratio	2021	2020	2019
Revenue (EUR'000)	288,534	296,082	234,071
Revenue change	(2.5)%	26.5%	4.7%
Net profit (loss) (EUR'000)	(5,506)	4,118	4,149
Net profit (loss) attributable to owners of the parent (EUR'000)	(6,310)	2,466	3,378
Average number of shares	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.20)	0.08	0.11
Administrative expenses to revenue	2.1%	2.4%	2.9%
EBITDA (EUR'000)	(797)	7,003	7,311
EBITDA margin	(0.3)%	2.4%	3.1%
Gross margin	1.4%	3.7%	5.0%
Operating margin	(1.5)%	1.2%	1.8%
Operating margin excluding gain on asset sales	(1.6)%	1.1%	1.7%
Net margin	(1.9)%	1.4%	1.8%
Return on invested capital	(6.5)%	9.3%	10.0%
Return on equity	(16.8)%	11.8%	12.5%
Equity ratio	20.8%	27.6%	27.9%
Return on assets	(4.1)%	3.3%	3.7%
Gearing	28.3%	21.1%	33.8%



Current ratio	0.94	1.01	1.01
At 31 December	2021	2020	2019
Order book (EUR'000)	266,856	215,796	227,545

#### Performance by geographical market

Revenue earned outside Estonia decreased substantially in 2021, accounting for 6% of the group's total revenue.

	2021	2020	2019
Estonia	94%	82%	89%
Finland	3%	6%	4%
Ukraine	2%	1%	2%
Latvia	1%	0%	0%
Sweden	0%	11%	5%

The contribution of foreign markets declined primarily due to the impact of the Swedish market where sales plummeted because previously started projects were being completed and no new contracts were signed. The share of Finnish revenues decreased as well. Revenue earned in Ukraine remained stable year on year. The group also does project-based work in Latvia where we were building a wind farm in 2021.

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 affect our current results.

#### Performance by business line

##### Segment revenues

We strive to maintain the revenues of our two main operating segments (Buildings and Infrastructure) as balanced as possible because this helps diversify risks and provides better opportunities for continuing construction operations in more challenging market conditions where the volumes of one or several subsegments substantially decline.

The group's revenue for 2021 was EUR288,534 thousand, 2.5% down from a year earlier when revenue amounted to EUR296,082 thousand. Revenue decline is attributable to a decrease in foreign revenues, particularly no revenue from the Swedish market. Revenue generated in Estonia grew by 13% compared with a year earlier. In segment terms, revenue from the Buildings segment decreased by 5%,



primarily due to the revenue change in the Swedish market, while revenue from the Infrastructure segment grew by 7% year on year. In a situation where the order book of the Buildings segment has grown to include large-scale design and construction contracts, the segment's revenue is also affected by the fact that design activities, which precede construction, take a long time. The low volumes of infrastructure construction that continue to affect the entire construction market also influence the group's revenue structure. In 2021, the Buildings and the Infrastructure segment generated revenue of EUR216,070 thousand and EUR72,115 thousand, respectively. The corresponding figures for 2020 were EUR228,515 thousand and EUR67,142 thousand.

Revenue by operating segment	2021	2020	2019
Buildings	75%	72%	70%
Infrastructure	25%	28%	30%

#### Subsegment revenues

In the Buildings segment, the revenue contributions of the commercial, public, and apartment buildings subsegments were practically equal while the revenue generated by the industrial and warehouse facilities subsegment continued to be modest. Revenue from the commercial and the industrial and warehouse facilities subsegments grew by 21% and 13% year-on-year, respectively. Revenue from the apartment buildings subsegment remained stable and revenue from the public buildings subsegment decreased by around 23%.

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 concept store in Rae rural municipality near Tallinn.

The order book of the public buildings subsegment has grown considerably, supporting the subsegment's revenue growth in 2022. The largest projects completed in the reporting period included an upper secondary school on the island of Saaremaa, 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. We continued work on the Medical Campus of the Tartu University Hospital and the main building of the Estonian Internal Security Service in Tallinn.

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 housing estate in Tartu (<https://moisavahe.ee>) and the development of plots for Kivimäe Süda - a new housing estate in the Nõmme district in Tallinn. The period's revenue from own development projects amounted to EUR3,097 thousand (2020: EUR2,866 thousand). In carrying out our own development



activities, we carefully monitor potential risks in the housing development market.

The largest ongoing project in the industrial and warehouse facilities subsegment is the construction of a factory complex for the dairy company E-Piim in Paide. However, most of the subsegment's projects are small, 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, a logistics centre for the packaging supplier Pakendikeskus in Tallinn, and a production building for Viljandi Aken ja Uks in Piiri street in Viljandi.

Buildings segment	2021	2020	2019
Apartment buildings	29%	28%	27%
Commercial buildings	29%	23%	36%
Public buildings	28%	37%	29%
Industrial and warehouse facilities	14%	12%	8%

In the Infrastructure segment, the largest revenue contributor is the road construction and maintenance subsegment, which increased its revenue by around 11% year on year. The period's largest ongoing projects were the construction of the Vão junction on the eastern border of Tallinn and 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road, the performance of earthworks on the Võõbu-Mäo section of the Tallinn-Tartu road, and the reconstruction and rehabilitation of national roads in Hiiu county. We also delivered 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 specialist engineering revenue.

Infrastructure segment	2021	2020	2019
Road construction	87%	74%	78%
Other engineering	10%	21%	18%
Environmental engineering	3%	1%	3%
Specialist engineering	0%	4%	1%

#### Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR266,856 thousand at 31 December 2021, a 24% increase year on year. In 2021,



we signed new contracts of EUR314,758 thousand, including contracts of EUR37,612 thousand signed in the fourth quarter. The corresponding figures for 2020 were EUR236,577 thousand and EUR55,511 thousand. The group was equally successful in winning both public and private contracts.

At 31 December	2021	2020	2019
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Order book (EUR'000)	266,856	215,796	227,545

The proportions of the two main operating segments in the group's order book have not changed substantially: the Buildings segment continues to dominate with 87% while the share of the Infrastructure segment is 13% (31 December 2020: 81% and 19%, respectively). Compared with 31 December 2020, the order book of the Buildings segment has grown by 37% and the order book of the Infrastructure segment had decreased by 34%. The decline in the Infrastructure order book is attributable to a lack of large-scale contracts with the Transport Administration.

A significant share of the order book of the Buildings segment is made up of contracts signed in 2021, the largest of which include: the design and construction of commercial and residential complex Vektor, the construction of the main building of the Estonian Foreign Intelligence Service and office building Roseni Maja in Tallinn and the design and construction of warehouses and related outdoor infrastructure for the Centre for Defence Investment in Harju county. The order book also includes some large-scale contracts signed in earlier periods such as the construction of phase III of the Maarjamõisa Medical Campus of the Tartu University Hospital and a factory complex for E-Piim in Paide.

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

- \* the construction of building III in the Porto Franco development in Kai street in Tallinn (a joint bid);
- \* the design and construction of an expansion to the production building of Viljandi Aken ja Uks in Raua street in Viljandi.

In the Infrastructure segment, the order book of the road construction and maintenance subsegment is still the largest, accounting for nearly 88% of the segment's order book. The largest projects include: the construction of 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road, the design and construction of the outdoor space around Terminal D in Old City Harbour in Tallinn and the construction of access roads for the premises of the IKEA concept store and a new Kurna-Tuhala circular intersection in Rae rural municipality. We also continued to deliver road maintenance services in Järva county under a five-year contract signed in 2020.

Based on the size of the group's order book, including the share of work to be performed in 2023, management expects that in 2022 the group's revenue will grow compared with 2021. The uptrend in the prices of energy carriers and labour costs, however, will continue to increase input prices and thus undermine profit



margins. 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. To mitigate the input price risk, we have been signing cost-plus contracts with private sector customers (these are contracts with an open book arrangement under which we can invoice the customer based on the actual costs incurred plus the agreed margin). Our focus remains 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's average number of employees in 2021 was 685, including 434 engineers and technical personnel (ETP). Headcount decreased by around 3% year on year.

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

	2021	2020	2019
ETP	434	450	414
Workers	251	258	273
Total average	685	708	687

The group's personnel expenses for 2021, including all taxes, totalled EUR25,054 thousand compared with EUR27,130 thousand for 2020. Personnel expenses decreased by around 8% year on year, mainly through a decrease in the number of employees, a decline in the share of performance bonuses, and a reduction of salaries carried out in the middle of 2020.

The service fees of the members of the council of Nordecon AS for 2021 amounted to EUR150 thousand and associated social security charges totalled EUR50 thousand (2020: EUR165 thousand and EUR54 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to EUR369 thousand and associated social security charges totalled EUR122 thousand (2020: EUR432 thousand and EUR143 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:

	2021	2020	2019
Labour productivity, (EUR '000)	420.8	422.9	340.6



Change, %	-0.5%	24.2%	4.7%
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Labour cost efficiency, (EUR)	11.5	10.9	9.2
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Change, %	5.5%	18.0%	-5.0%
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The group's nominal labour productivity for the period remained essentially at the same level as a year earlier. Nominal labour cost efficiency improved year on year, supported by a decrease in personnel expenses.

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