

Company Nordecon AS
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Category Management interim statement or quaterly financial report
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Attachments:

- Nordecon_Interim_report_Q1_2022.pdf (<http://oam.fi.ee/en/download?id=6454>)
- NCN investor presentation Q1_2022.pdf (<http://oam.fi.ee/en/download?id=6455>)
- Nordecon_Aruanne_1Q_2022.pdf (<http://oam.fi.ee/en/download?id=6456>)
- NCN investor presentation Q1_2022.pdf (<http://oam.fi.ee/en/download?id=6457>)

Currency

Title 2022 first quarter consolidated interim report (unaudited)

The key words for the first quarter of 2022 for the group are, firstly, a sharp increase in sales revenue and, at the same time, a sharp rise in input prices. The increase in sales revenue is related to the fulfillment of construction contracts concluded in previous periods. Input prices have risen mainly as a result of sanctions imposed on Russia and Belarus, and in addition to price rises, supply difficulties have a significant impact. These have led to a sharp rise in the price of projects in the construction market and a delay in the start of new projects. Market participants are waiting for the situation to clarify and for a new equilibrium in prices to continue to operate normally, which requires long-term agreements and security of supply.

The Group's sales revenue for the first quarter of 2022 was 68,453 thousand euros. Compared to the same period last year, sales revenue increased by 39.7%. The increase in sales revenue is based on the increase in sales revenue in the buildings segment, while the sales revenue in the facilities segment decreased. The Group's gross profit margin for the first quarter of 2022 was 1.7% (first quarter of 2021: -0.2%). Profit for the reporting period was earned in the building construction segment. Due to the seasonality of construction, the result of the first quarter, especially in the facilities segment, is affected by a large share of uncovered fixed costs. This mainly concerns the part of the production and installation of asphalt concrete for road construction, of which a large part of the fixed costs is the cost of the necessary equipment. The decline in the margins of the facilities segment is also affected by the 50% decrease in sales revenue.

The Group's net profit was significantly affected by developments in foreign markets. The creditors of Swencn AB approved a reorganization plan, according to which the creditors will be entitled to 25% of the claims. As a result, 1,560 thousand euros have been recognized in other operating income during the reporting period. During the reporting period, the Group's associate V.I. Center



TOV granted a loan in the amount of 825 thousand euros. The need for a discount has arisen due to the postponement of the completion of development projects. The order book of the Group as of 31 March 2022 was 251,781 thousand euros, which is approximately 11% less than as of 31 March 2021.

Condensed consolidated interim statement of financial position

EUR'000 31 March 2022 31 December 2021

ASSETS

Current assets

Cash and cash equivalents	5,617	9,031
Trade and other receivables	50,815	48,091
Prepayments	6,396	4,947
Inventories	24,922	25,637
Total current assets	87,750	87,706

Non-current assets

Other investments	76	76
Trade and other receivables	8,434	9,206
Investment property	8,233	5,599
Property, plant and equipment	17,626	17,433
Intangible assets	15,070	15,051
Total non-current assets	49,439	47,365
TOTAL ASSETS	137,189	135,071

LIABILITIES

Current liabilities

Borrowings	17,401	16,289
Trade payables	56,119	57,324



Other payables	8,683	7,459
Deferred income	13,076	11,539
Provisions	1,286	707
Total current liabilities	96,565	93,318
Non-current liabilities		
Borrowings	7,153	7,405
Trade payables	3,433	4,178
Provisions	2,076	2,044
Total non-current liabilities	12,662	13,627
TOTAL LIABILITIES	109,227	106,945
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	2,102	1,948
Retained earnings	5,422	6,341
Total equity attributable to owners of the parent	24,432	25,197
Non-controlling interests	3,530	2,929
TOTAL EQUITY	27,962	28,126
TOTAL LIABILITIES AND EQUITY	137,189	135,071

Condensed consolidated interim statement of comprehensive income

EUR '000	Q1 2022	Q1 2021	2021
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Revenue	68,453	48,987	288,534
Cost of sales	(67,306)	(49,079)	(284,513)
Gross profit (loss)	1,147	(92)	4,021
Marketing and distribution expenses	(71)	(107)	(559)
Administrative expenses	(1,601)	(1,471)	(6,053)
Other operating income	1,753	35	519
Other operating expenses	(278)	(23)	(2,264)
Operating profit (loss)	950	(1,658)	(4,336)
Finance income	67	405	958
Finance costs	(1,335)	(289)	(1,320)
Net finance income (costs)	(1,268)	116	(362)
Loss before income tax	(318)	(1,542)	(4,698)
Income tax expense	0	(369)	(808)
Loss for the period	(318)	(1,911)	(5,506)
Other comprehensive income (expense): Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	154	(181)	(475)
Total other comprehensive income (expense)	154	(181)	(475)
TOTAL COMPREHENSIVE EXPENSE	(164)	(2,092)	(5,981)



Profit (loss) attributable to:

- Owners of the parent	(919)	(1,564)	(6,310)
- Non-controlling interests	601	(347)	804
Loss for the period	(318)	(1,911)	(5,506)

Comprehensive income (expense) attributable to:

- Owners of the parent	(765)	(1,745)	(6,785)
- Non-controlling interests	601	(347)	804
Comprehensive expense for the period	(164)	(2,092)	(5,981)

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.03)	(0.05)	(0.20)
Diluted earnings per share (EUR)	(0.03)	(0.05)	(0.20)

Condensed consolidated interim statement of cash flows

EUR'000	Q1 2022	Q1 2021

Cash flows from operating activities		
Cash receipts from customers	81,287	68,075
Cash paid to suppliers	(76,240)	(59,677)
VAT paid	(2,011)	(2,338)
Cash paid to and for employees	(5,947)	(6,215)
Income tax paid	(150)	(458)
Net cash used in operating activities	(3,061)	(613)



Cash flows from investing activities

Paid on acquisition of property, plant and equipment	(63)	(43)
Proceeds from sale of property, plant and equipment	200	71
Loans provided	0	(5)
Repayments of loans provided	3	5
Dividends received	6	0
Interest received	2	2
Net cash from investing activities	148	30

Cash flows from financing activities

Proceeds from loans received	832	5
Repayments of loans received	(300)	(606)
Dividends paid	0	(1,884)
Lease payments made	(786)	(806)
Interest paid	(239)	(277)
Other payments	(3)	(10)
Net cash used in financing activities	(496)	(3,578)

Net cash flow	(3,409)	(4,161)
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Cash and cash equivalents at beginning of period	9,031	12,576
Effect of movements in foreign exchange rates	(5)	1
Decrease in cash and cash equivalents	(3,409)	(4,161)
Cash and cash equivalents at end of period	5,617	8,416

Financial review



Financial performance

The reporting period was strongly affected by materials supply issues and price inflation, the impact of which has not yet fully emerged due to the ongoing supply chain disruptions and volatility. The Nordecon group ended the first quarter of 2022 with a gross profit of EUR1,147 thousand (Q1 2021: a gross loss of EUR92 thousand) and a gross margin of 1.7% (Q1 2021: a negative gross margin of 0.2%). The period's gross profit was earned in the Buildings segment, which delivered a gross margin of 4.1% (Q1 2021: 2.1%). 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 expenses account for a major share of fixed costs. A large share of fixed costs in combination with a 50% decrease in revenue triggered a sharp margin decline in the Infrastructure segment, which delivered a negative gross margin of 23.0% (Q1 2021: a negative gross margin of 5.7%).

The group's administrative expenses for the first quarter of 2022 amounted to EUR1,601 thousand. Compared with the same period last year, administrative expenses grew by around 9% (Q1 2021: EUR1,471 thousand). The increase is mainly attributable to growth in personnel expenses. The ratio of administrative expenses to revenue (12 months rolling) declined year on year, decreasing to 2.0% (Q1 2021: 2.3%).

The group ended the first quarter of 2022 with an operating profit of EUR950 thousand (Q1 2021: an operating loss of EUR1,658 thousand). EBITDA for the period was positive at EUR1,817 thousand (Q1 2021: negative at EUR811 thousand). According to the restructuring plan approved by the creditors of Swencn AB, the claims of the entity's creditors are to be settled to the extent of 25%. As a result, the group recognised other income of EUR1,560 thousand.

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 weakened against the euro by around 5% and the Swedish krona weakened against the euro by around 1%. The translation of the loans provided to the group's subsidiaries in euros into the Ukrainian hryvnias and Swedish krona gave rise to exchange losses of EUR313 thousand (Q1 2021: a gain of EUR346 thousand in Ukraine and a loss of EUR28 thousand in Sweden). Finance costs were strongly influenced by the write-down of a loan provided to the group's Ukrainian associate V.I. Center TOV by EUR825 thousand. Due to the lack of more recent reliable data, the fair value of the loan was measured using the inputs of the valuation reports issued at the end of 2021 by an internationally recognised independent appraiser. The asset had to be written down due to the time factor, i.e. the deferral of the completion of the development projects.

The group incurred a net loss of EUR318 thousand (Q1 2021: a net loss of EUR1,911 thousand). The loss attributable to owners of the parent, Nordecon AS, was EUR919 thousand (Q1 2021: a loss of EUR1,564 thousand).

Cash flows

Operating activities produced a net cash outflow of EUR3,061 thousand the first



quarter of 2022 (Q1 2021: an outflow of EUR613 thousand). Negative operating cash flow in the first quarter is attributable to the cyclical nature of the construction business. The period's larger fixed costs and expenses on pre-construction activities 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 materials suppliers. Prepayments have increased sharply compared with the same time last year due to rapid price inflation and continuing supply chain disruptions. 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 EUR148 thousand (Q1 2021: EUR30 thousand). Payments made to purchase property, plant and equipment amounted to EUR63 thousand (Q1 2021: EUR43 thousand) and proceeds from the sale of property, plant and equipment amounted to EUR200 thousand (Q1 2021: EUR71 thousand). Financing activities generated a net cash outflow of EUR496 thousand (Q1 2021: an outflow of EUR3,578 thousand). The largest items were loan repayments and lease payments of EUR300 thousand and EUR786 thousand, respectively (Q1 2021: EUR606 thousand and EUR806 thousand, respectively). Proceeds from loans received amounted to EUR832 thousand (Q1 2021: EUR5 thousand) and interest payments totalled EUR239 thousand (Q1 2021: EUR277 thousand). The largest item in financing cash flows in the comparative period was a dividend distribution of EUR1,884 thousand. The group's cash and cash equivalents at 31 March 2022 totalled EUR5,617 thousand (31 March 2021: EUR8,416 thousand).

Key financial figures and ratios

Figure/ratio	Q1 2022	Q1 2021	Q1 2020	2021
Revenue (EUR'000)	68,453	48,987	54,924	288,534
Revenue change	39.7%	(10.8)%	59.1%	(2.5)%
Net profit (loss) (EUR'000)	(318)	(1,911)	(2,196)	(5,506)
Net profit (loss) attributable to owners of the parent (EUR'000)	(919)	(1,564)	(2,669)	(6,310)
Average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.03)	(0.05)	(0.08)	(0.20)
Administrative expenses to revenue	2.3%	3.0%	3.3%	2.1%
Administrative expenses				



to revenue (rolling)	2.0%	2.3%	2.8%	2.1%
EBITDA (EUR'000)	1,817	(811)	194	(797)
EBITDA margin	2.7%	(1.7)%	0.4%	(0.3)%
Gross margin	1.7%	(0.2)%	2.2%	1.4%
Operating margin	1.4%	(3.4)%	(1.2)%	(1.5)%
Operating margin excluding gain on asset sales	1.2%	(3.4)%	(1.2)%	(1.6)%
Net margin	(0.5)%	(3.9)%	(4.0)%	(1.9)%
Return on invested capital	(0.2)%	(2.1)%	(3.3)%	(6.5)%
Return on equity	(1.1)%	(5.3)%	(6.7)%	(16.8)%
Equity ratio	20.4%	28.0%	28.2%	20.8%
Return on assets	(0.2)%	(1.8)%	(2.1)%	(4.1)%
Gearing	36.1%	27.8%	32.7%	28.3%
Current ratio	0.91	0.99	0.95	0.94

31 March 2022 31 March 2021 31 March 2020 31 Dec 2021

Order book (EUR'000)	251,781	281,431	229,018	266,856
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Performance by geographical market

Revenue generated outside Estonia in the first quarter of 2022 remained practically at the same level as in the first quarter of 2021, accounting for 5% of the group's total revenue. However, the revenue contributions of foreign markets changed. The group did not generate any revenue and had no ongoing construction contracts in the Swedish market. Revenue generated in the Ukrainian market amounted to EUR231 thousand and due to Russia's military invasion of Ukraine the activity of the Ukrainian subsidiary Eurocon Ukraine TOV has been temporarily suspended. The group also operates on a project basis in Latvia where it was building a wind farm in the reporting period.

	Q1 2022	Q1 2021	Q1 2020	2021
Estonia	95%	96%	86%	94%



Latvia	3%	0%	0%	1%
Finland	2%	2%	5%	3%
Sweden	0%	1%	8%	0%
Ukraine	0%	1%	1%	2%

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 noticeably 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 two main 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 market conditions where the volumes of one subsegment substantially decline while another begins to grow more rapidly

The group's revenue for the first quarter of 2022 was EUR68,453 thousand, 39.7% up on a year earlier when revenue amounted to EUR48,987 thousand. Revenue growth was attributable to the revenue of the Buildings segment, which grew by 66%. The revenue of the Infrastructure segment decreased by around 50%.

The low volumes of infrastructure construction that are affecting the entire construction market also influence the group's revenue structure. In the first quarter of 2022, the Buildings and the Infrastructure segment generated revenue of EUR62,814 thousand and EUR5,569 thousand, respectively. The corresponding figures for the first quarter of 2021 were EUR37,833 thousand and EUR11,094 thousand.

Revenue by operating segment	Q1 2022	Q1 2021	Q1 2020	2021
Buildings	89%	80%	89%	75%
Infrastructure	11%	20%	11%	25%

Subsegment revenues

In the Buildings segment, the revenues of all subsegments grew compared with the same period last year. The revenue contributions of the apartment buildings and the public buildings subsegments were practically equal while the revenue contributions of the commercial buildings and the industrial and warehouse facilities subsegments were somewhat smaller.

The largest projects under construction in the commercial buildings subsegment



were the LEED Gold compliant Alma Tomingas office building in Ülemiste City in Tallinn and an IKEA store in Rae rural municipality near Tallinn.

The revenue of the public buildings subsegment has increased significantly year on year. The largest projects in progress during the period were construction works in the Medical Campus of the Tartu University Hospital in Tartu, the construction of the main building of the Estonian Internal Security Service in Tallinn and the design and construction of warehouses and external networks for the Centre for Defence Investment in Harju county.

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 and Luccaranna housing estates 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 Mõisavahe Kodu 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 EUR2,893 thousand (Q1 2021: EUR0). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The revenue contribution of the industrial and warehouse facilities subsegment has grown considerably compared with the first quarter of 2021. The subsegment's largest ongoing project is the construction of a factory complex for the dairy company E-Piim in Paide but there also numerous smaller projects such as the construction of a production building at Kurna tee in Harju county.

Buildings segment	Q1 2022	Q1 2021	Q1 2020	2021
Apartment buildings	31%	30%	27%	29%
Public buildings	28%	31%	30%	28%
Commercial buildings	23%	33%	36%	29%
Industrial and warehouse facilities	18%	6%	7%	14%

In the Infrastructure segment, the largest revenue contributor is still road construction and maintenance although its revenue and proportionate contribution have decreased. During the period, most of the subsegment's revenue resulted from the performance of contracts secured in 2021, the largest of which were the construction of 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road and the design and construction of outdoor space around Terminal D in Old City Harbour in Tallinn. We also continued to deliver road maintenance services in Järva county.

The group has won several contracts for the construction of small harbours. During the period, work was done on the expansion of quays in Roomassaare harbour, which accounted for a major share of the specialist engineering revenue. The revenue of the other engineering subsegment resulted mostly from



the construction of the Vanessa wind farm in Latvia.

Infrastructure segment	Q1 2022	Q1 2021	Q1 2020	2021
Road construction and maintenance	66%	88%	77%	87%
Specialist engineering	7%	6%	14%	4%
Environmental engineering	0%	5%	4%	3%
Other engineering	27%	1%	5%	6%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR251,781 thousand at 31 March 2022, a roughly 11% decrease year on year. In the first quarter of 2022, we signed new contracts of EUR63,167 thousand (Q1 2021: EUR104,882 thousand). Russia's military invasion of Ukraine and the consequent sanctions on Russia and Belarus have disrupted the supply of building materials, particularly metal, wood and oil-based products, which is also affecting the prices of relevant materials. The surge in materials prices has caused a sharp increase in the costs of development projects as well as the postponement of new projects.

	31 March 2022	31 March 2021	31 March 2020	31 Dec 2021
Order book (EUR'000)	251,781	281,431	229,018	266,856

The share of the Buildings segment in the group's order book has increased: the Buildings segment accounted for 88% and the Infrastructure segment for 12% of the group's total order book at 31 March 2022 (31 March 2021: the respective shares were 80% and 20%). Compared with 31 March 2021, the order books of both segments have decreased: by 3% in the Buildings segment and 44% in the Infrastructure segment.

A major share of new contracts was secured by the Buildings segment. The largest of them are:

- * the design and construction of the Uus-Järveküla housing estate in Rae rural municipality (28 terraced houses and 8 semi-detached houses with a total of 165 housing units) with a cost of around EUR28,300 thousand.
- * construction works on floors 2 to 4 of Wing A of the Medical Campus of the Tartu University Hospital with a cost of around EUR4,200 thousand.
- * the design and construction of the Ülemiste City education complex with an estimated cost of EUR16,000 thousand (the cost will be specified in the design phase).

Besides the above, a significant share of the segment's order book is made up of contracts signed in 2021, the largest of which are the design and construction of the commercial and residential complex Vektor, the construction of the main



building of the Estonian Internal Security Service and the office building Roseni Maja in Tallinn, phase III of the Maarjamõisa Medical Campus of the Tartu University Hospital in Tartu and a factory complex for E?Piim in Paide.

In the Infrastructure segment, new contracts were signed in various subsegments but 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 contracts signed in the reporting period were:

- * design and construction works for the removal of residual contamination from the Erra river and Kiviõli ditch with a cost of around EUR2,100 thousand;
- * reconstruction of the Tubala-Tammela section of national road no. 81 Kärdla-Käina, km 4.9-11.36, on the island of Hiiumaa with a cost of around EUR2,480 thousand.

The segment's largest ongoing contracts signed in 2021 are the construction of 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road and the design and construction of outdoor space around Terminal D in Old City Harbour in Tallinn. We also continue 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 materials, energy carriers and labour costs will continue to increase input prices and pressure on 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 input price risk, we have been signing cost-plus contracts with private sector customers (contracts with an open book arrangement under which we can invoice the customer based on the actual costs incurred plus an 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 the first quarter of 2022 was 659, including 434 engineers and technical personnel (ETP). Headcount decreased by around 2% year on year.

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

	Q1 2022	Q1 2021	Q1 2020	2021
ETP	434	422	429	434
Workers	225	253	266	251



Total average 659 675 695 685

The group's personnel expenses for the first quarter of 2022, including all taxes, totalled EUR6,030 thousand compared with EUR5,931 thousand for the first quarter of 2021. While the number of employees decreased, personnel expenses grew because wages and salaries increased by around 2% compared with the same period last year.

The service fees of the members of the council of Nordecon AS for the first quarter of 2022 amounted to EUR37 thousand and associated social security charges totalled EUR12 thousand (Q1 2021: EUR37 thousand and EUR12 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 2021: EUR99 thousand and EUR33 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 2022	Q1 2021	Q1 2020	2021
Nominal labour productivity (rolling), (EUR '000)	451.9	417.4	365.8	420.8
Change against the comparative period, %	8.3%	14.1%	16%	(0.5)%
Nominal labour cost efficiency (rolling), (EUR)	12.2	11.0	9.6	11.5
Change against the comparative period, %	11.4%	14.9%	4.3%	5.5%

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

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