

Company Nordecon AS  
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Attachments:

- Nordecon\_Interim\_report\_Q4\_2022.pdf (<http://oam.fi.ee/en/download?id=6991>)
- NCN investor presentation Q4\_2022.pdf (<http://oam.fi.ee/en/download?id=6992>)
- Nordecon\_Aruanne\_4Q\_2022.pdf (<http://oam.fi.ee/en/download?id=6993>)
- NCN investor presentation Q4\_2022.pdf (<http://oam.fi.ee/en/download?id=6994>)

Currency

Title 2022 IV quarter and 12 months consolidated interim report (unaudited)

Despite the continuing turbulence of the economic environment and the significant impact of the war in Ukraine on the construction sector, the group achieved a positive result in its core business.

The year 2022 is characterized by a 12% increase in sales revenue of the group compared to the previous financial year, reaching the highest sales revenue in history, 322,860 thousand euros. 81% of the sales revenue was related to the Buildings segment. The gross margin was 2.6% (1.4% in 2021). Also, in 2022 the group returned to operating profit, which amounted to 2,305 thousand euros.

Gross profitability increased in the Buildings segment, the Infrastructure segment remained in loss. Profitability was affected by the continued increase in input prices - the construction price index increased by 17% compared to the previous financial year. Problems with the supply of materials extended the terms of several construction contracts, which caused additional costs for projects under construction. The result of the high fixed cost Infrastructure segment and the decrease in its sales revenue are directly affected by the decision made by the main customer, the Transport Administration, in the spring of 2022 to significantly reduce investments in infrastructure construction. To manage the impact of this decision, the group has reorganized its road construction sub-segment in order to ensure a more efficient use of resources and return to profit through the elimination of duplicative activities.

Russia's invasion of Ukraine in February 2022 had a strong effect on the exchange rate of the Ukrainian hryvnia - the group has recorded a total extraordinary loss of 2,353 thousand euros from the exchange rate changes of the Ukrainian hryvnia and the write-off of the group's previous investments in Ukraine. Being a non-cash expense, it has still significant impact, resulting in net loss for the financial year of 1,441 thousand euros.

The group's order book as of 31.12.2022 decreased by 44% year-on-year, amounting to 149,799 thousand euros. The decrease in the contract portfolio reflects the



general state of the construction industry and the caution of the clients. The rise in the prices of materials, energy carriers and other inputs and the rise in interest rates due to the increase in the Euribor have caused a significant increase in the cost of development projects and the postponement of the start of new projects. In 2023, the group has additionally signed new construction contracts worth around 73,280 thousand euros.

Condensed consolidated interim statement of financial position

EUR'000	31 December 2022	31 December 2021
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ASSETS		
Current assets		
Cash and cash equivalents	7,238	9,031
Trade and other receivables	48,084	48,091
Prepayments	6,728	4,947
Inventories	25,454	25,637
Total current assets	87,504	87,706
Non-current assets		
Other investments	76	76
Trade and other receivables	8,604	9,206
Investment property	8,347	5,599
Property, plant and equipment	17,669	17,433
Intangible assets	15,134	15,051
Total non-current assets	49,830	47,365
TOTAL ASSETS	137,334	135,071
LIABILITIES		
Current liabilities		
Borrowings	17,193	16,289



Trade payables	65,109	57,287
Other payables	8,359	7,496
Deferred income	6,996	11,539
Provisions	1,288	707
Total current liabilities	98,945	93,318
Non-current liabilities		
Borrowings	6,311	7,405
Trade payables	2,769	4,178
Provisions	2,049	2,044
Total non-current liabilities	11,129	13,627
TOTAL LIABILITIES	110,074	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	3,316	1,948
Retained earnings	2,691	6,341
Total equity attributable to owners of the parent	22,915	25,197
Non-controlling interests	4,345	2,929
TOTAL EQUITY	27,260	28,126
TOTAL LIABILITIES AND EQUITY	137,334	135,071

Condensed consolidated interim statement of comprehensive income



EUR'000	Q4 2022	12M 2022	Q4 2021	12M 2021
Revenue	83,685	322,860	79,640	288,534
Cost of sales	(80,454)	(314,365)	(80,514)	(284,513)
Gross profit (loss)	3,231	8,495	(874)	4,021
Marketing and distribution expenses	(177)	(490)	(165)	(559)
Administrative expenses	(2,148)	(7,287)	(1,786)	(6,053)
Other operating income	129	2,049	321	519
Other operating expenses	(70)	(462)	(2,171)	(2,264)
Operating profit (loss)	965	2,305	(4,675)	(4,336)
Finance income	84	258	81	958
Finance costs	(1,037)	(3,740)	(378)	(1,320)
Net finance costs	(953)	(3,482)	(297)	(362)
Profit (loss) before income tax	12	(1,177)	(4,972)	(4,698)
Income tax expense	(64)	(264)	(166)	(808)
Loss for the period	(52)	(1,441)	(5,138)	(5,506)
Other comprehensive income (expense) Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	606	1,368	85	(475)
Total other comprehensive income (expense)	606	1,368	85	(475)



TOTAL COMPREHENSIVE INCOME (EXPENSE)	554	(73)	(5,053)	(5,981)
Profit (loss) attributable to:				
- Owners of the parent	(998)	(3,650)	(5,514)	(6,310)
- Non-controlling interests	946	2,209	376	804
Loss for the period	(52)	(1,441)	(5,138)	(5,506)
Comprehensive income (expense) attributable to:				
- Owners of the parent	(392)	(2,282)	(5,429)	(6,785)
- Non-controlling interests	946	2,209	376	804
Comprehensive income (expense) for the period	554	(73)	(5,053)	(5,981)

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.03)	(0.12)	(0.17)	(0.20)
Diluted earnings per share (EUR)	(0.03)	(0.12)	(0.17)	(0.20)

Condensed consolidated interim statement of cash flows

EUR'000	12M 2022	12M 2021
-----		
Cash flows from operating activities		
Cash receipts from customers	389,548	352,378
Cash paid to suppliers	(351,682)	(310,183)
VAT paid	(8,880)	(8,140)
Cash paid to and for employees	(26,075)	(25,893)
Income tax paid	(291)	(797)



Net cash from operating activities	2,620	7,365
Cash flows from investing activities		
Paid on acquisition of property, plant and equipment	(688)	(232)
Paid on acquisition of intangible assets	(122)	(19)
Proceeds from sale of property, plant and equipment	816	489
Loans provided	(25)	(34)
Repayments of loans provided	25	96
Dividends received	6	0
Interest received	9	12
Net cash from investing activities	21	312
Cash flows from financing activities		
Proceeds from loans received	4,631	1,922
Repayments of loans received	(4,231)	(3,766)
Lease payments made	(3,333)	(3,318)
Interest paid	(984)	(1,051)
Dividends paid	(488)	(5,000)
Other payments made	(8)	(12)
Net cash used in financing activities	(4,413)	(11,225)
Net cash flow	(1,772)	(3,548)
Cash and cash equivalents at beginning of period	9,031	12,576
Effect of movements in foreign exchange rates	(21)	3



Decrease in cash and cash equivalents	(1,772)	(3,548)
Cash and cash equivalents at end of period	7,238	9,031

## Financial review

### Financial performance

Nordecon ended 2022 with a gross profit of EUR8,495 thousand (2021: EUR4,021 thousand) and a gross margin of 2.6% (2021: 1.4%). Margin improvement was due to the Buildings segment, which strongly improved its gross margin. However, the performance of the Infrastructure segment, which ended both the fourth quarter and the year with a loss, was less than satisfactory. The gross margins of the Buildings segment were 4.1% for the full year and 6.7% for the fourth quarter of 2022 compared with 2.0% for the full year and (0.7)% for the fourth quarter in 2021. The gross margins of the Infrastructure segment, on the other hand, were (2.4)% for the full year and (12.1)% for the fourth quarter compared with 1.0% for the full year and (1.4)% in 2021. The key factors, which affected the performance of both segments were as follows:

- \* rampantly rising input prices (the construction price index increased by 17.8% year on year), which had a particularly strong impact on large and long-term construction contracts secured before 2022;
- \* persisting difficulties with the supply of materials, which make it difficult to complete construction projects on time but contract extensions involve additional costs.

The largest customer, the Transport Administration, cancelled several announced procurements and made significant cutbacks in its investments in 2022. This has had a significant effect on the performance of the Infrastructure segment whose fixed costs are high. In response to a sharp decrease in road construction investments, we have reorganised our road construction operations and eliminated duplication of activities to ensure more efficient use of resources and profitability.

The group's administrative expenses for 2022 amounted to EUR7,287 thousand. Compared with a year earlier, administrative expenses grew by 20% (2021: EUR6,053 thousand) due to a general uptrend in the cost of goods and services and growth in personnel expenses. The ratio of administrative expenses to revenue (12 months rolling) was 2.3% (2021: 2.1%).

The group earned an operating profit of EUR2,305 thousand in 2022 (2021: an operating loss of EUR4,336 thousand). EBITDA for the period amounted to EUR5,766 thousand and the EBITDA margin was 1.8% (2021: EBITDA was negative at EUR797 thousand and the EBITDA margin was (0.3)%).

The group's finance costs were strongly affected by the events in Ukraine. Russia's invasion of Ukraine in February 2022 had a strong effect on the exchange rate of the Ukrainian hryvnia, which was already unstable. The hryvnia, which was devalued in July, weakened against the euro by approximately 21% and the Swedish krona weakened against the euro by approximately 8% in 2022. The



translation of the loans provided to the group's subsidiaries in euros into the local currency gave rise to an exchange loss of EUR1,416 thousand on movements in the exchange rate of the Ukrainian hryvnia and an exchange loss of EUR112 thousand on movements in the exchange rate of Swedish krona (2021: an exchange gain of EUR711 thousand on movements in the exchange rate of the Ukrainian hryvnia and an exchange gain of EUR16 thousand on movements in the exchange rate of Swedish krona). The same movements in foreign exchange rates increased the translation reserve in equity by EUR1,368 thousand (2021: reduced by EUR475 thousand) and the net effect of the exchange differences on the group's net assets was negative at EUR160 thousand (2021: positive at EUR256 thousand). In addition, the group wrote down the loans provided to the 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 foreign exchange loss and the impairment loss on the loan were non-cash transactions with a total effect of EUR2,353 thousand on the net result for 2022.

The group ended the year with a net loss of EUR1,441 thousand (2021: a net loss of EUR5,506 thousand). The net loss attributable to owners of the parent, Nordecon AS, was EUR3,650 thousand (2021: a net loss of EUR6,310 thousand).

### Cash flows

Operating activities produced a net cash inflow of EUR2,620 thousand in 2022 (2021: an inflow of EUR7,365 thousand). Operating cash flow is increasingly affected by the need to make prepayments to materials suppliers, which have grown due to spikes in materials prices and continuing supply disruptions, in a situation where the contracts signed with both public and private sector customers do not require them to make advance payments.

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 of the period resulted in a net cash inflow of EUR21 thousand (2021: an inflow of EUR312 thousand). Payments made to acquire property, plant and equipment and intangible assets amounted to EUR810 thousand (2021: EUR251 thousand) and proceeds from the sale of property, plant and equipment totalled EUR816 thousand (2021: EUR489 thousand).

Financing activities generated a net cash outflow of EUR4,413 thousand (2021: an outflow of EUR11,225 thousand). The largest items were cash flows related to loans and leases. Proceeds from loans received totalled EUR4,631 thousand, consisting of the use of the overdraft facility and development loans (2021: EUR1,922 thousand). Repayments of loans received amounted to EUR4,231 thousand, consisting of regular repayments of long-term investment and development loans (2021: EUR3,766 thousand). Lease payments totalled EUR3,333 thousand (2021: EUR3,318 thousand). Dividends paid in 2022 amounted to EUR488 thousand (2021: EUR5,000 thousand).

The group's cash and cash equivalents at 31 December 2022 totalled EUR7,238 thousand (31 December 2021: EUR9,031 thousand).



## Key financial figures and ratios

Figure/ratio	2022	2021	2020
Revenue (EUR'000)	322,860	288,534	296,082
Revenue change	11.9%	(2.5)%	26.5%
Net profit (loss) (EUR'000)	(1,441)	(5,506)	4,118
Net profit (loss) attributable to owners of the parent (EUR'000)	(3,650)	(6,310)	2,466
Average number of shares	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.12)	(0.20)	0.08
Administrative expenses to revenue	2.3%	2.1%	2.4%
EBITDA (EUR'000)	5,766	(797)	7,003
EBITDA margin	1.8%	(0.3)%	2.4%
Gross margin	2.6%	1.4%	3.7%
Operating margin	0.7%	(1.5)%	1.2%
Operating margin excluding gain on asset sales	0.6%	(1.6)%	1.1%
Net margin	(0.4)%	(1.9)%	1.4%
Return on invested capital	(0.5)%	(6.5)%	9.3%
Return on equity	(5.2)%	(16.8)%	11.8%
Equity ratio	19.8%	20.8%	27.6%
Return on assets	(1.1)%	(4.1)%	3.3%
Gearing	32.0%	28.3%	21.1%
Current ratio	0.88	0.94	1.01
At 31 December	2022	2021	2020
Order book (EUR'000)	149,799	266,856	215,796



## Performance by geographical market

The revenue contribution of foreign markets decreased substantially year on year, dropping to 4% of the group's total revenue for 2022. Due to Russia's military invasion of Ukraine, the business volumes of our Ukrainian subsidiary Eurocon Ukraine TOV have plummeted. The subsidiary halted its operations during the first months of the war but in the second quarter resumed work on a previously started building project in Kiev and is now also restoring an administrative building of the Kiev TV tower, which was damaged in the war. At the end of the year, we signed a contract for the construction of concrete structures for a modular kindergarten, a bomb shelter and outdoor infrastructure in the city of Ovruch. Ukrainian revenues for the reporting period amounted to EUR1,202 thousand. Nordecon did not generate any revenue and had no ongoing construction contracts in the Swedish market. The group operates on a project basis in Latvia and Lithuania where it was building two wind farms in the reporting period. Finnish revenues mainly consist of subcontracting revenue from concrete works.

	2022	2021	2020
Estonia	96%	94%	82%
Finland	2%	3%	6%
Lithuania	1%	0%	0%
Latvia	1%	1%	0%
Ukraine	0%	2%	1%
Sweden	0%	0%	11%

## 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 may substantially decline.

The group's revenue for 2022 was EUR322,860 thousand, roughly 12% larger than in 2021 when the group generated revenue of EUR288,543 thousand. The revenue of the Buildings segment grew by 21% while the revenue of the Infrastructure segment decreased by 14%. Revenue decline in the Infrastructure segment is attributable to cutbacks in the investments of the largest customer, the Transport Administration, made due to the effects of the war in Ukraine that have caused a rampant surge in input prices. The growth delivered by the Buildings segment is



mainly underpinned by large contracts secured in 2021.

The low volumes of infrastructure construction that continue to affect the entire construction market also influence the group's revenue structure. In 2022, the Buildings segment and the Infrastructure segment generated revenue of EUR260,585 thousand and EUR62,048 thousand, respectively. The corresponding figures for 2021 were EUR216,070 thousand and EUR72,115 thousand.

Revenue by operating segment	2022	2021	2020
Buildings	81%	75%	72%
Infrastructure	19%	25%	28%

#### Subsegment revenues

The revenue of the commercial buildings subsegment remained essentially stable while the revenues of other subsegments grew compared with 2021. The largest revenue contributors in the Buildings segment were the public buildings and the apartment buildings subsegments, which increased their revenue by 31% and 21%, respectively. The strongest revenue growth (57%) was delivered by the industrial and warehouse facilities subsegment, which contributed 18% to the revenue of the Buildings segment.

The revenue of the public buildings subsegment grew significantly compared with a year earlier. 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, the design and construction of storage facilities and utility networks for the Centre for Defence Investment in Harju county and the design and renovation of the Ülenurme upper secondary school in Kambja rural municipality near Tartu.

The apartment buildings subsegment earns most of its revenue from the construction of apartment buildings for third parties. In the reporting period, the largest of them were the design and construction of the Tiskreoja and the Luccaranna housing estates on the western border of Tallinn. The volume of our own development operations (reported in the apartment buildings subsegment), however, has grown as well. We have development projects in both Tallinn and Tartu. 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, where we have started preparations for phase II - the construction of an apartment building (<https://www.kivimaesuda.ee/en>). We have also started the design of the Seiler Quarter housing estate in Pärnu (<https://seileri.ee>). The period's revenue from own development projects amounted to EUR11,459 thousand (2021: EUR3,097 thousand). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects of the commercial buildings subsegment were the commercial and residential complex Vektor in Tallinn, the LEED Gold compliant Alma Tomingas office building in Ülemiste City and an IKEA store in Rae rural municipality near Tallinn. The latter two have been completed and delivered to the customer



on time.

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 but there are also smaller projects such as the construction of a production building at Kurna tee in Harju county and the design and construction of an extension to the production building of Viljandi Aken ja Uks AS.

Buildings segment	2022	2021	2020
Public buildings	30%	28%	37%
Apartment buildings	28%	29%	28%
Commercial buildings	24%	29%	23%
Industrial and warehouse facilities	18%	14%	12%

In the Infrastructure segment, the largest revenue contributor is still road construction and maintenance although its revenue has decreased year on year by roughly 28%. During the period, a major share of its 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 the outdoor area near Terminal D in Old City Harbour in Tallinn, as well as smaller contracts of EUR2-3 million each signed in 2022. The group continued to deliver road maintenance services in Järva county.

The revenue contribution of other engineering, which is currently generating most of its revenue from the construction of wind farms in Estonia, Latvia and Lithuania, increased year on year.

Infrastructure segment	2022	2021	2020
Road construction and maintenance	78%	87%	74%
Other engineering	20%	10%	21%
Specialist engineering	2%	0%	4%
Environmental engineering	0%	3%	1%

#### Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR149,799 thousand at 31 December 2022, reflecting a roughly 44% decrease year on year. In 2022, we signed new contracts of EUR163,498 thousand, of which contracts of EUR25,381 thousand in the fourth quarter. The corresponding figures for 2021 were EUR314,758 thousand and EUR37,612 thousand. The surge in materials prices and a rise in interest rates due to the increase in EURIBOR have substantially increased the costs of development projects as well as the



postponement of new projects. As mentioned in the previous chapters, the volume of investments made by the Transport Administration has decreased significantly. This has affected the group's order book through a decline in the order book of the Infrastructure segment. On the other hand, the volume of procurements for the Rail Baltica project has increased and this has partly counterbalanced the decline in the investments of the Transport Administration. While public investments in the buildings construction segment have also decreased, investments in national defence infrastructure are going to increase according to currently available information and this a subsegment where Nordecon has traditionally been very successful.

At 31 December	2022	2021	2021
Order book (EUR'000)	149,799	266,856	215,796

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 88% while the share of the Infrastructure segment is 12% (31 December 2021: 87% and 13%, respectively). The order books of both the Buildings segment and the Infrastructure segment have decreased compared with 31 December 2021: by 45% and 32%, respectively.

A major share of contracts secured in the fourth quarter were attributable to the Buildings segment. The largest of them were:

- \* the construction of a biological pharmaceuticals manufacturing facility for Icosagen AS in Kambja rural municipality in Tartu county with an approximate cost of EUR4,000 thousand;
- \* the construction of the building and outdoor premises for the Karlsson kindergarten in Viljandi city with an approximate cost of EUR5,100 thousand;
- \* the construction of the Tagadi ecoduct on the route of Rail Baltica in Harju county with an approximate cost of EUR5,300 thousand;
- \* the construction of the Viljandi Rescue Station building with an approximate cost of EUR3,900 thousand.

Between the end of the financial year (31 December 2022) and the date this report is authorised for issue, group companies have secured additional construction contracts of approximately EUR73,280 thousand. The new contracts include, for example, the design and construction of the Sopi-Tootsi wind farm in the northern part of Pärnu County with an approximate cost of EUR67,300 thousand, which was won in a joint bid. The group's share of the cost of the contract is 50%.

Based on the size of the group's order book, management forecasts that in 2023 the group's revenue will decrease compared with 2022. The uptrend in the prices of materials, energy carriers and labour costs will continue to drive up input prices, which will increase 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. Our focus remains on cost control as well as pre-construction and design activities, where we can deploy our professional competitive advantages.



## People

### Employees and personnel expenses

The group's average number of employees in 2022 was 658, including 432 engineers and technical personnel (ETP). Headcount decreased by around 4% year on year.

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

	2022	2021	2020
ETP	432	434	450
Workers	226	251	258
Total average	658	685	708

The group's personnel expenses for 2022, including all taxes, totalled EUR27,248 thousand compared with EUR25,054 thousand in 2021. Personnel expense have increased by around 9% in connection with growth in wages and salaries.

The service fees of the members of the council of Nordecon AS for 2022 amounted to EUR150 thousand and associated social security charges totalled EUR50 thousand (2021: EUR150 thousand and EUR50 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to EUR417 thousand and associated social security charges totalled EUR138 thousand (2021: EUR369 thousand and EUR122 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:

	2022	2021	2020
Nominal labour productivity (th. EUR)	490.4	420.8	422.9
Change against the comparative period, %	16.5%	(0.5)%	24.2%
Nominal labour cost efficiency (EUR)	11.8	11.5	10.9
Change against the comparative period, %	2.9%	5.5%	18.0%

The group's nominal labour productivity and nominal labour cost efficiency improved year on year, mainly due to revenue growth. Nominal labour productivity



was also influenced by a decrease in the number of staff.

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