

Company Nordecon AS
Type Company Release
Category Management interim statement or quaterly financial report
Disclosure time 04 May 2023 09:00:00 +0300

Attachments:

- Nordecon_Interim_report_Q1_2023.pdf (<http://oam.fi.ee/en/download?id=7351>)
- NCN investor presentation Q1_2023.pdf (<http://oam.fi.ee/en/download?id=7352>)
- Nordecon_Aruanne_1Q_2023.pdf (<http://oam.fi.ee/en/download?id=7353>)
- NCN investor presentation Q1_2023.pdf (<http://oam.fi.ee/en/download?id=7354>)

Currency

Title 2023 first quarter consolidated interim report (unaudited)

Uncertainty in the economy has not disappeared with the arrival of the new year, and the dynamics of the construction market is a direct reflection of this. Many private developments are frozen or on hold, public construction procurements have not yet adjusted to the increase in construction prices that have occurred in the last two years, and the start dates of several planned projects are postponed indefinitely. Road construction segment has essentially not recovered from the shock of the war in Ukraine and has not restarted. Competition in the general contracting market is therefore even tighter compared to previous years. The financial results of the group for the first quarter of 2023 correlate with what is happening in the external environment. The sales revenue for the first quarter of 2023 was EUR47,653 thousand, which compared to the same period last year decreased by approximately 30%. Sales revenue decreased in both segments, in the Buildings segment by 29% and in the Infrastructure segment by 49%, which was expected and is due to the decrease in construction volumes in the market. The decrease in sales revenue of the Infrastructure segment to essentially the lowest level in history is directly related to the significant reduction of investments by the main customer, Estonian Transport Administration. Although the group has been successful in concluding new contracts in the first quarter of this year, they have not yet had a significant impact on the sales revenue of the reporting period. As of 31 March 2023, the group's order book decreased by 21% compared to the same period last year, amounting to EUR199,947 thousand. New contracts worth EUR84,930 thousand were added in the first quarter. Despite the decrease in sales revenue, the group's gross profit increased compared to the same period last year. In the first quarter of 2023, the gross profit was EUR1,322 thousand (Q1 2022: EUR1,147 thousand) and the gross margin was 2.8% (1Q 2022: 1.7%). The increase in profitability is based on the improvement in the profitability of the Buildings segment, which had a margin of 5.1% (1Q 2022: 4.1%). The result of the first quarter is affected by the large part of



uncovered fixed costs resulting from the seasonality of construction, especially in the Infrastructure segment. The margin of the Infrastructure segment was -26.3% (1Q 2022: -23%) affected by a significant decrease in sales revenue. The group's operating loss in the first quarter of 2023 was EUR605 thousand, which is comparable to the operating result of the first quarter of 2022 without the impact of the reorganization of Swencn AB (EUR1,560 thousand).

Condensed consolidated interim statement of financial position

EUR'000 31 March 2023 31 December 2022

ASSETS

Current assets

Cash and cash equivalents	5,901	7,238
Trade and other receivables	39,039	48,084
Prepayments	5,582	6,728
Inventories	28,993	25,454
Total current assets	79,515	87,504

Non-current assets

Other investments	76	76
Trade and other receivables	8,661	8,604
Investment property	8,347	8,347
Property, plant and equipment	17,176	17,669
Intangible assets	15,148	15,134
Total non-current assets	49,408	49,830
TOTAL ASSETS	128,923	137,334

LIABILITIES

Current liabilities

Borrowings	16,830	17,193
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Trade payables	54,422	65,144
Other payables	7,544	8,324
Deferred income	13,610	6,996
Provisions	1,030	1,288
Total current liabilities	93,436	98,945
Non-current liabilities		
Borrowings	6,233	6,311
Trade payables	1,924	2,769
Provisions	2,163	2,049
Total non-current liabilities	10,320	11,129
TOTAL LIABILITIES	103,756	110,074

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	3,485	3,316
Retained earnings	817	2,691
Total equity attributable to owners of the parent	21,210	22,915
Non-controlling interests	3,957	4,345
TOTAL EQUITY	25,167	27,260
TOTAL LIABILITIES AND EQUITY	128,923	137,334

Condensed consolidated interim statement of comprehensive income



EUR '000	Q1 2023	Q1 2022	2022
Revenue	47,653	68,453	322,860
Cost of sales	(46,331)	(67,306)	(314,365)
Gross profit	1,322	1,147	8,495
Marketing and distribution expenses	(136)	(71)	(490)
Administrative expenses	(1,870)	(1,601)	(7,287)
Other operating income	112	1,753	2,049
Other operating expenses	(33)	(278)	(462)
Operating profit (loss)	(605)	950	2,305
Finance income	74	67	258
Finance costs	(900)	(1,335)	(3,740)
Net finance costs	(826)	(1,268)	(3,482)
Loss before income tax	(1,431)	(318)	(1,177)
Income tax expense	(243)	0	(264)
Loss for the period	(1,674)	(318)	(1,441)
Other comprehensive income (expense) Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	169	154	1,368
Total other comprehensive income	169	154	1,368
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(1,505)	(164)	(73)



Profit (loss) attributable to:

- Owners of the parent	(1,874)	(919)	(3,650)
- Non-controlling interests	200	(601)	2,209
Loss for the period	(1,674)	(318)	(1,441)

Comprehensive income (expense) attributable to:

- Owners of the parent	(1,705)	(765)	(2,282)
- Non-controlling interests	200	601	2,209
Comprehensive expense for the period	(1,505)	(164)	(73)

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.06)	(0.03)	(0.12)
Diluted earnings per share (EUR)	(0.06)	(0.03)	(0.12)

Condensed consolidated interim statement of cash flows

EUR'000	Q1 2023	Q1 2022

Cash flows from operating activities		
Cash receipts from customers	77,360	81,287
Cash paid to suppliers	(67,923)	(76,240)
VAT paid	(2,692)	(2,011)
Cash paid to and for employees	(5,716)	(5,947)
Income tax paid	(324)	(150)
Net operating cash flow	705	(3,061)



Cash flows from investing activities

Acquisition of PP&E	(37)	(63)
Sale of PP&E	201	200
Loans provided	(508)	0
Repayments of loans provided	4	3
Dividends received	12	6
Interest received	2	2
Net investing cash flow	(326)	148

Cash flows from financing activities

Proceeds from loans received	1,234	832
Repayments of loans received	(1,330)	(300)
Dividends paid	(588)	0
Lease payments made	(735)	(786)
Interest paid	(294)	(239)
Other payments made	0	(3)
Net financing cash flow	(1,713)	(496)

Net cash flow	(1,334)	(3,409)
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Cash at beginning of period	7,238	9,031
Foreign exchange effect	(3)	(5)
Change in cash and cash equivalents	(1,334)	(3,409)
Cash at end of period	5,901	5,617

Financial review



Financial performance

Nordecon ended the first quarter of 2023 with a gross profit of EUR1,322 thousand (Q1 2022: EUR1,147 thousand) and a gross margin of 2.8% (Q1 2022: 1.7%). Profitability improved due to higher profitability in the Buildings segment, which delivered a gross margin of 5.1% (Q1 2022: 4.1%). 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 49% decrease in revenue triggered a sharp margin decline in the Infrastructure segment, which delivered a negative gross margin of 26.3 % (Q1 2022: a negative gross margin of 23%).

The group's administrative expenses for the period were EUR1,870 thousand. Compared with a year earlier, administrative expenses grew by around 17% (Q1 2022: EUR1,601 thousand) due to growth in the cost of goods and services as well as staff costs. The ratio of administrative expenses to revenue (12 months rolling) increased year on year, rising to 2.5% (Q1 2022: 2.0%).

The group earned an operating loss of EUR605 thousand in the first quarter of 2023 (Q1 2022: profit EUR950 thousand). EBITDA for the period was EUR264 thousand (Q1 2022: EUR1,817 thousand). The operating profit and EBITDA for the comparative period were influenced by other income of EUR1,560 thousand, recognised after the approval of the restructuring plan of Swencn AB according to which the claims of the entity's creditors were to be settled to the extent of 25%.

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 2% and the Swedish krona weakened against the euro by around 1%. The translation of the loans provided to the group's Ukrainian and Swedish subsidiaries in euros into the local currencies gave rise to exchange losses of EUR133 thousand (Q1 2022: EUR313 thousand). Finance costs of the comparative period were strongly influenced by the write-down of a loan provided to the group's Ukrainian associate V.I. Center TOV by EUR825 thousand. The group ended the period with a net loss of EUR1,674 thousand (Q1 2022: EUR318 thousand). The net loss attributable to owners of the parent, Nordecon AS, was EUR1,874 thousand (Q1 2022: EUR919 thousand).

Cash flows

Operating activities in the first quarter of 2023 produced a net cash inflow of EUR705 thousand (Q1 2022: an outflow of EUR3,061 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 materials suppliers. 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 outflow of EUR326 thousand (Q1 2022: an inflow of EUR148 thousand). Payments made to purchase



property, plant and equipment amounted to EUR37 thousand (Q1 2022: EUR63 thousand) and proceeds from the sale of property, plant and equipment amounted to EUR201 thousand (Q1 2022: EUR200 thousand). Loans provided amounted to EUR508 thousand. Financing activities generated a net cash outflow of EUR1,713 thousand (Q1 2022: an outflow of EUR496 thousand). The largest items were loan repayments and lease payments of EUR1,330 thousand and EUR735 thousand, respectively (Q1 2022: EUR300 thousand and EUR786 thousand). Proceeds from loans received amounted to EUR1,234 thousand (Q1 2022: EUR832 thousand) and interest payments to EUR294 thousand (Q1 2022: EUR239 thousand). Dividends paid during the period amounted to EUR588 thousand.

The group's cash and cash equivalents at 31 March 2023 were EUR5,901 thousand (31 March 2021: EUR5,617 thousand).

Key financial figures and ratios

Figure/ratio	Q1 2023	Q1 2022	Q1 2021	2022
Revenue (EUR'000)	47,653	68,453	48,987	322,860
Revenue change	(30.4)%	39.7%	(10.8)%	11.9%
Net profit (loss) (EUR'000)	(1,674)	(318)	(1,911)	(1,441)
Net profit (loss) attributable to owners of the parent (EUR'000)	(1,874)	(919)	(1,564)	(3,650)
Average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.06)	(0.03)	(0.05)	(0.12)
Administrative expenses to revenue	3.9%	2.3%	3.0%	2.3%
Administrative expenses to revenue (rolling)	2.5%	2.0%	2.3%	2.3%
EBITDA (EUR'000)	264	1,817	(811)	5,766
EBITDA margin	0.6%	2.7%	(1.7)%	1.8%
Gross margin	2.8%	1.7%	(0.2)%	2.6%
Operating margin	(1.3)%	1.4%	(3.4)%	0.7%
Operating margin excluding gain on non- current asset sales	(1.5)%	1.2%	(3.4)%	0.6%



Net margin	(3.5)%	(0.5)%	(3.9)%	(0.4)%
Return on invested capital	(2.4)%	(0.2)%	(2.1)%	(0.5)%
Return on equity	(6.4)%	(1.1)%	(5.3)%	(5.2)%
Equity ratio	19.5%	20.4%	28.0%	19.8%
Return on assets	(1.3)%	(0.2)%	(1.8)%	(1.1)%
Gearing	35.6%	36.1%	27.8%	32.0%
Current ratio	0.85	0.91	0.99	0.88

31 March 2023 31 March 2022 31 March 2021 31 Dec 2022

Order book (EUR'000)	199,947	251,781	281,431	149,799
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Performance by geographical market

The revenue contribution of foreign markets has decreased year on year, dropping to 2% of the group's total revenue for the first quarter of 2023. Due to Russia's military invasion of Ukraine, the business volumes of the Ukrainian subsidiary, Eurocon Ukraine TOV, have decreased considerably. Revenue generated during the period in Ukraine amounted to EUR166 thousand, a major share of it resulting from a contract secured at the end of 2022 for building concrete structures for a modular kindergarten, a bomb shelter and outdoor infrastructure in the city of Ovruch. Finnish revenues include mainly subcontracting revenue from the provision of concrete works. Nordecon did not generate any revenue and had no ongoing construction contracts in the Swedish market. Nor did the group generate any revenue in Latvia and Lithuania, where we operate on a project basis.

	Q1 2023	Q1 2022	Q1 2021	2022
Estonia	98%	95%	96%	96%
Finland	2%	2%	2%	2%
Ukraine	0%	0%	1%	0%
Sweden	0%	0%	1%	0%
Latvia	0%	3%	0%	1%
Lithuania	0%	0%	0%	1%



Performance by business line

Segment revenues

Our targets include maintaining the revenues of our two main operating segments (Buildings and Infrastructure) in balance, if this is permitted by market conditions, because this helps diversify risks and provides better opportunities to continue construction operations in more challenging market conditions where the volumes of one subsegment may decline sharply while the volumes of another may begin growing more rapidly.

The group's revenue for the first quarter of 2023 was EUR47,653 thousand, roughly 30% less than in the same period last year, when the figure was EUR68,453 thousand. The Buildings segment generated revenue of EUR44,789 thousand and the Infrastructure segment revenue of EUR2,849 thousand. The corresponding figures for the same period of 2022 were EUR62,814 thousand and EUR5,569 thousand. The decline was 29% for Buildings and 49% for Infrastructure. The decrease in both segments was expected and is attributable to market contraction. The trend is also reflected the group's order book, which declined year on year. Although the group was successful in winning new contracts in the first quarter of 2023, these did not yet affect revenue for the period. The drastic fall in the revenue of the Infrastructure segment to its practically lowest-ever level is directly related to cutbacks in the investments of the largest customer, the Transport Administration.

Revenue by operating segment	Q1 2023	Q1 2022	Q1 2021	2022
Buildings	93%	89%	80%	81%
Infrastructure	7%	11%	20%	19%

Subsegment revenues

In the Buildings segment, the main revenue contributor was the public buildings subsegment, which also delivered nearly 11% revenue growth. The revenues of other subsegments decreased compared with a year earlier.

The largest projects under construction in the public buildings subsegment during the period were the 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 construction of the building and outdoor premises of the Karlsson kindergarten in Viljandi.

The apartment buildings subsegment earns most of its revenue from the construction of apartment buildings for third parties. In the first quarter, the largest projects of this kind were the design and construction of the Luccaranna and Kastanikodu housing estates near Tallinn. Revenue generated by the group's own development operations (reported in the apartment buildings subsegment) decreased, amounting to EUR2,173 thousand (Q1 2022: EUR2,893 thousand). Nordecon



continues the development of the Mõisavahe Kodu (<https://moisavahe.ee>) housing estate and the construction of the centrally located Emajõe Residents (<https://emajooeresidents.ee>) housing estate in Tartu. The group is also making preparations for the construction of an apartment building in the Kivimäe Süda development in the Nõmme district in Tallinn (<https://www.kivimaesuda.ee/en>) and moving on with the design of the Seileri Kvartal housing estate in Pärnu (<https://seileri.ee/en>). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects in the commercial buildings subsegment were the construction of the commercial and residential complex Vektor and the Ahtri 4 office building in Tallinn and the design and construction of the Männiku commercial building in the Kandiküla district in Tartu.

The largest project in progress in the industrial and warehouse facilities subsegment is the construction of a factory complex for the dairy company E-Piim in Paide but the subsegment is also involved in various smaller projects.

Buildings segment	Q1 2023	Q1 2022	Q1 2021	2022
Public buildings	43%	28%	31%	30%
Commercial buildings	25%	23%	33%	24%
Apartment buildings	22%	31%	30%	28%
Industrial and warehouse facilities	10%	18%	6%	18%

In the Infrastructure segment, the largest revenue contributor is still road construction and maintenance although its revenue has decreased year on year by roughly 58%. During the period, a major share of the subsegment's revenue resulted from the performance of the road maintenance contract in Järva county and the construction of the Tagadi ecoduct on the route of Rail Baltica.

The revenue contribution of other engineering, which is currently generating most of its revenue from the construction of two wind farms (Saarde and Tootsi-Sopi) in Estonia, increased year on year.

Infrastructure segment	Q1 2023	Q1 2022	Q1 2021	2022
Road construction and maintenance	61%	66%	88%	75%
Other engineering	33%	27%	1%	20%
Environmental engineering	6%	0%	5%	0%
Specialist engineering	0%	7%	6%	5%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood



at EUR199,947 thousand at 31 March 2023, reflecting a roughly 21% decrease year on year. In the first quarter of 2023, we signed new contracts of EUR84,930 thousand (Q1 2022: EUR63,167 thousand). The surge in materials prices and the uptrend in interest rates due to the rise in the EURIBOR rates have caused a substantial increase in the costs of development projects and the postponement of new projects. The volume of investments made by the Transport Administration has decreased sharply and this has had a direct impact on the size of the order book of the Infrastructure segment. The volume of procurements for the Rail Baltica project has increased and will partly counterbalance 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 is a subsegment where Nordecon has traditionally been very successful.

31 March 2023 31 March 2022 31 March 2021 31 Dec 2022

Order book (EUR'000)	199,947	251,781	281,431	149,799
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The proportion of the Buildings segment in the group's order book has decreased: the Buildings segment accounted for 75% and the Infrastructure segment for 25% of the group's total order book at 31 March 2023 (31 March 2022: 88% and 12%, respectively). Compared with 31 March 2022, the order book of the Buildings segment has decreased by 32% while the order book of the Infrastructure segment has increased by 64%. Growth in the order book of the Infrastructure segment was driven by the other engineering subsegment, which secured a new wind farm construction contract.

The largest new contracts secured by the Buildings segment during the period include:

- * the construction of a complex of buildings in the Port Athena quarter at Väike-Turu 7 in Tartu with an approximate cost of EUR29,900 thousand;
- * the construction of a production and office building at Hüüru in Harju county with an approximate cost of EUR3,600 thousand;
- * the design and construction of an administrative building in the Raadi campus in Tartu with an approximate cost of EUR5,200 thousand.

The largest new contracts secured by the Infrastructure segment during the period include:

- * design and construction works in the Sopi-Tootsi wind farm in the northern part of Pärnu county with an approximate cost of EUR67,300 thousand (the contract was won in a joint bid and the group's share of the cost of the contract is 50%);
- * construction of a 2+1 road on the Neanurme-Pikknurme section of national road no. 2 (E263) Tallinn-Tartu-Võru-Luhamaa, km 135.5-141.9, in Jõgeva county with an approximate cost of EUR8,900 thousand.

Based on the size of the group's order book and the situation in the



construction market, management forecasts that in 2023 the group's revenue will decrease compared with 2022. Increasing competition and cost inflation, particularly the growth in labour costs, will continue to drive up input prices, which will keep profit margins under pressure. In an environment of stiff competition, we will avoid 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 staff costs

The group's average number of employees in the first quarter of 2023 was 584, including 392 engineers and technical professionals (ETP). Headcount decreased by around 11% year on year.

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

	Q1 2023	Q1 2022	Q1 2021	2022
ETP	392	434	422	432
Workers	192	225	253	226
Total average	584	659	675	658

The group's staff costs for the first quarter of 2023, including all taxes, totalled EUR6,123 thousand compared with EUR6,030 thousand in the first quarter of 2022. Despite the decrease in the number of staff, staff costs grew by around 2% year on year due to growth in employee remuneration.

The service fees of the members of the council of Nordecon AS for the first quarter of 2023 were EUR37 thousand and associated social security charges were EUR12 thousand (Q1 2022: EUR37 thousand and EUR12 thousand, respectively).

The service fees of the members of the board of Nordecon AS were EUR115 thousand and associated social security charges were EUR38 thousand (Q1 2022: 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 staff costs incurred:

	Q1 2023	Q1 2022	Q1 2021	2022
Nominal labour productivity (rolling), (EUR '000)	472.3	451.9	417.4	490.4



Change against the comparative period, %	4.5%	8.3%	14.1%	16.5%
Nominal labour cost efficiency (rolling), (EUR)	11.0	12.2	11.0	11.8
Change against the comparative period, %	(9.8)%	11.4%	14.9%	2.9%

The group's nominal labour productivity increased year on year due to the decrease in the average number of staff compared with the same period last year. Nominal labour cost efficiency declined due to growth in staff costs.

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