

Company Nordecon AS
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Attachments:

- Nordecon_Interim_report_Q2_2023.pdf (<http://oam.fi.ee/en/download?id=7615>)
- NCN investor presentation Q2_2023.pdf (<http://oam.fi.ee/en/download?id=7616>)
- Nordecon_Aruanne_2Q_2023.pdf (<http://oam.fi.ee/en/download?id=7617>)
- NCN investor presentation Q2_2023.pdf (<http://oam.fi.ee/en/download?id=7618>)

Currency

Title 2023 II quarter and 6 months consolidated interim report (unaudited)

The dynamics of the construction market reflect the ongoing economic downturn and uncertainty about the future. Although the increase in the construction price index slowed in the second quarter of this year and the construction price index fell by 0.5% compared to the first quarter of 2023, no significant change in demand can be observed in the construction market. Loan interest rates have not stabilized due to the increase in Euribor so far, and this also affects the decisions of clients. Public orders have not yet recovered to their usual volume, many ongoing procurements are in a frozen state and there are no signs of a reversal in this trend yet. On the side of private customers, however, we see optimism and a will to find ways to realize their business plans in order to emerge from today's economic situation as a winner.

The group's sales revenue for the first half of 2023 amounted to EUR123,819 thousand, a decrease of approximately 17% compared to the same period last year. Sales revenue decreased in both segments, 19% in the Buildings segment and 4% in the Infrastructure segment. The decrease in sales revenue in both segments is expected and is due to the decline in construction volumes in the market, as well as the 2022 group's historically record sales revenue.

The gross profit of the Nordecon group in the first half of 2023 was EUR4,731 thousand. Compared to the same period last year, the group's gross profitability has improved, amounting to 3.8% in the first half of the year (H1 2022: 2.1%) and 4.5% in the second quarter (Q2 2022: 2.5%). Both segments were profitable in the first half of the year as well as in the second quarter, and profitability improved significantly compared to the same period in 2022.

The group has been successful in signing new contracts in the first half of this year. In total, new contracts worth EUR208,460 thousand were signed, including EUR123,530 thousand in the II quarter. As of 30 June 2023, the volume of the group's order book was EUR256,328 thousand, which compared to the same period last year has increased by 16%.



Condensed consolidated interim statement of financial position

EUR '000

30 June 2023 31 December 2022

ASSETS

Current assets

Cash and cash equivalents	8,369	7,238
Trade and other receivables	54,734	48,084
Prepayments	5,514	6,728
Inventories	28,880	25,454
Total current assets	97,497	87,504

Non-current assets

Other investments	76	76
Trade and other receivables	8,957	8,604
Investment property	5,547	8,347
Property, plant and equipment	16,774	17,669
Intangible assets	15,152	15,134
Total non-current assets	46,506	49,830
TOTAL ASSETS	144,003	137,334

LIABILITIES

Current liabilities

Borrowings	16,701	17,193
Trade payables	69,420	65,144
Other payables	7,034	8,324
Deferred income	14,726	6,996



Provisions	1,160	1,288
Total current liabilities	109,041	98,945
Non-current liabilities		
Borrowings	5,767	6,311
Trade payables	2,080	2,769
Provisions	2,546	2,049
Total non-current liabilities	10,393	11,129
TOTAL LIABILITIES	119,434	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	3,570	3,316
Retained earnings	198	2,691
Total equity attributable to owners of the parent	20,676	22,915
Non-controlling interests	3,893	4,345
TOTAL EQUITY	24,569	27,260
TOTAL LIABILITIES AND EQUITY	144,003	137,334

Condensed consolidated interim statement of comprehensive income

EUR'000	H1 2023	Q2 2023	H1 2022	Q2 2022	2022
Revenue	123,819	76,166	149,256	80,803	322,860
Cost of sales	(119,088)	(72,757)	(146,075)	(78,769)	(314,365)



Gross profit	4,731	3,409	3,181	2,034	8,495
Marketing and distribution expenses	(317)	(181)	(186)	(115)	(490)
Administrative expenses	(3,852)	(1,982)	(3,118)	(1,513)	(7,287)
Other operating income	313	201	1,856	103	2,049
Other operating expenses	(202)	(169)	(276)	(2)	(462)
Operating profit	673	1,278	1,457	507	2,305
Finance income	145	71	146	79	258
Finance costs	(1,812)	(912)	(1,377)	(43)	(3,740)
Net finance income (costs)	(1,667)	(841)	(1,231)	36	(3,482)
Profit (loss) before income tax	(994)	437	226	543	(1,177)
Income tax expense	(596)	(353)	(200)	(200)	(264)
Profit (loss) for the period	(1,590)	84	26	343	(1,441)
Other comprehensive income (expense) Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	254	85	(259)	(413)	1,368
Total other comprehensive income (expense)	254	85	(259)	(413)	1,368
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(1,336)	169	(233)	(70)	(73)



Profit (loss) attributable to:

- Owners of the parent	(2,493)	(619)	(928)	(10)	(3,650)
- Non-controlling interests	903	703	954	353	2,209
Profit (loss) for the period	(1,590)	84	26	343	(1,441)

Comprehensive income (expense) attributable to:

- Owners of the parent	(2,239)	(534)	(1,187)	(423)	(2,282)
- Non-controlling interests	903	703	954	353	2,209

Comprehensive income (expense) for the period

(1,336)	169	(233)	(70)	(73)
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Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.08)	(0.02)	(0.03)	(0.00)	(0.12)
Diluted earnings per share (EUR)	(0.08)	(0.02)	(0.03)	(0.00)	(0.12)

Condensed consolidated interim statement of cash flows

EUR'000	H1 2023	H1 2022

Cash flows from operating activities		
Cash receipts from customers	157,087	177,608
Cash paid to suppliers	(133,900)	(162,328)
VAT paid	(5,531)	(4,447)
Cash paid to and for employees	(12,640)	(12,476)
Income tax paid	(687)	(312)
Net operating cash	4,329	(1,955)



Cash flows from investing activities		
Acquisition of PP&E	(185)	(97)
Proceeds from sale of PP&E	291	322
Acquisition of intangible assets	0	0
Loans provided	(524)	(9)
Repayments of loans provided	10	11
Dividends received	12	6
Interest received	9	6
Net investing cash	(387)	239
Cash flows from financing activities		
Proceeds from loans received	1,242	1,870
Repayments of loans received	(650)	(1,605)
Lease payments made	(1,447)	(1,790)
Interest paid	(601)	(428)
Dividends paid	(1,355)	(391)
Other payments made	0	(4)
Net financing cash	(2,811)	(2,348)
Net cash flow	1,131	(4,064)
Cash at beginning of period	7,238	9,031
Change in cash and cash equivalents	1,131	(4,064)



Cash at end of period

8,369

4,967

Financial review

Financial performance

Nordecon ended the first half of 2023 with a gross profit of EUR4,731 thousand (H1 2022: EUR3,181 thousand). Profitability improved year on year with the group's gross margin rising to 3.8% for the half-year (H1 2022: 2.1%) and 4.5% for the second quarter (Q2 2022: 2.5%). Both operating segments earned a profit in both the second quarter and the first half year and improved their profitability significantly. The gross margin of the Buildings segment was 5.0% for the half-year and 4.9% for the second quarter (H1 2022: 3.8% and Q2 2022: 3.4%). The gross margins of the Infrastructure segment were lower: 0.1% for the half-year and 4.5% for the second quarter (H1 2022: (6.4)% and Q2 2022: (0.3)%).

The group's administrative expenses for the period were EUR3,852 thousand. Compared with a year earlier, administrative expenses grew by around 24% (H1 2022: EUR3,118 thousand) due to growth in staff costs. The ratio of administrative expenses to revenue (12 months rolling) increased year on year, rising to 2.7% (H1 2022: 2.0%).

The group earned an operating profit of EUR673 thousand in the first half of 2023 (H1 2022: EUR1,457 thousand). EBITDA for the period was EUR2,405 thousand (H1 2022: EUR3,158 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 2.6% and the Swedish krona weakened against the euro by around 5.8%. The translation of the loans provided to the group's Ukrainian and Swedish subsidiaries in euros into the local currencies gave rise to a net exchange loss of EUR241 thousand (H1 2022: EUR2 thousand). The group's finance costs also grew due to the rise in interest rates.

The group ended the period with a net loss of EUR1,590 thousand (H1 2022: a net profit of EUR26 thousand). The net loss attributable to owners of the parent, Nordecon AS, was EUR2,493 thousand (H1 2022: a net loss of EUR928 thousand).

Cash flows

Operating activities in the first half of 2023 produced a net cash inflow of EUR4,329 thousand (H1 2022: an outflow of EUR1,955 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 EUR387 thousand (H1 2022: an inflow of EUR239 thousand). Investments in property, plant and equipment amounted to EUR185 thousand (H1 2022: EUR97 thousand) and proceeds



from the sale of property, plant and equipment amounted to EUR291 thousand (H1 2022: EUR322 thousand). Loans provided amounted to EUR524 thousand (H1 2022: EUR9 thousand).

Financing activities for the half year generated a net cash outflow of EUR2,811 thousand (H1 2022: an outflow of EUR2,348 thousand). Loans received amounted to EUR1,242 thousand, consisting of the use overdrafts and development loans (H1 2022: EUR1,870 thousand). Repayments of loans received were EUR650 thousand (H1 2022: EUR1,605 thousand), consisting of regular repayments of long-term investment and development loans. Lease payments were EUR1,447 thousand (H1 2022: EUR1,790 thousand). Dividends paid in the first half of 2023 amounted to EUR1,355 thousand (H1 2022: EUR391 thousand).

The group's cash and cash equivalents at 30 June 2023 amounted to EUR8,369 thousand (30 June 2022: EUR4,967 thousand).

Key financial figures and ratios

Figure/ratio	H1 2023	H1 2022	H1 2021	2022
Revenue (EUR'000)	123,819	149,256	117,966	322,860
Revenue change	(17)%	27%	(14)%	11.9%
Net profit (loss) (EUR'000)	(1,590)	26	(2,390)	(1,441)
Net profit (loss) attributable to owners of the parent (EUR'000)	(2,493)	(928)	(2,148)	(3,650)
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.08)	(0.03)	(0.07)	(0.12)
Administrative expenses to revenue	3.1%	2.1%	2.4%	2.3%
Administrative expenses to revenue (rolling)	2.7%	2.0%	2.2%	2.3%
EBITDA (EUR'000)	2,405	3,158	92	5,766
EBITDA margin	1.9%	2.1%	0.1%	1.8%
Gross margin	3.8%	2.1%	1.1%	2.6%
Operating margin	0.5%	1.0%	(1.4)%	0.7%
Operating margin excluding gain on non-current asset				



sales	0.4%	0.9%	(1.4)%	0.6%
Net margin	(1.3)%	0.0%	(2.0)%	(0.4)%
Return on invested capital	(1.0)%	1.2%	(2.1)%	(0.5)%
Return on equity	(6.1)%	0.1%	(6.9)%	(5.2)%
Equity ratio	17.1%	18.2%	22.6%	19.8%
Return on assets	(1.1)%	0.0%	(1.7)%	(1.1)%
Gearing	30.0%	37.2%	31.4%	32.0%
Current ratio	0.89	0.91	0.97	0.88

30 June 2023 30 June 2022 30 June 2021 31 Dec 2022

Order book (EUR'000)	256,328	220,687	269,448	149,799
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Performance by geographical market

The revenue contribution of foreign markets has remained more or less stable compared with the same period last year. In the first half of 2023, revenue earned outside Estonia, i.e. in Finland and Ukraine, accounted for 2% of the group's total revenue. Despite the war, Nordecon's construction volumes in Ukraine have increased year on year. We have secured a number of small-scale projects and in June we completed and delivered on time a modular kindergarten with a bomb shelter in the city of Ovruch. Finnish revenues, which include mainly subcontracting revenue from the provision of concrete works, have decreased. 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.

	H1 2023	H1 2022	H1 2021	2022
Estonia	98%	97%	96%	96%
Finland	1%	1%	3%	2%
Ukraine	1%	0%	1%	0%
Latvia	0%	2%	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 half of 2023 was EUR123,819 thousand, roughly 17% less than in the same period last year, when the figure was EUR149,256 thousand. The Buildings segment generated revenue of EUR103,970 thousand and the Infrastructure segment revenue of EUR19,822 thousand. The corresponding figures for the same period in 2022 were EUR128,430 thousand and EUR20,703 thousand. Revenue declined by 19% in the Buildings segment and 4% in the Infrastructure segment. The decrease in both segments was expected and is attributable to market contraction. Although the group was successful in winning new contracts in the first half of 2023, these did not yet affect revenue for the period. The steep 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. This is counterbalanced to some extent by the group's success in securing renewable energy projects: the construction of wind farms accounts for an increasing share of the revenue of the Infrastructure segment.

Revenue by operating segment	H1 2023	H1 2022	H1 2021	2022
Buildings	84%	84%	78%	81%
Infrastructure	16%	16%	22%	19%

Subsegment revenues

In the Buildings segment, the half-year revenues of all subsegments decreased compared with the same period in 2022. The largest revenue contributors are still the public buildings and the apartment buildings subsegments whose revenues decreased less. The revenues of the commercial buildings and the industrial and warehouse facilities subsegments, however, contracted significantly, falling by 46% and 23% year on year, respectively.

The period's largest projects in the public buildings subsegment were 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, the construction of the building and outdoor premises of the Karlsson kindergarten in Viljandi and the construction of the Viljandi Rescue Station.

The apartment buildings subsegment earns most of its revenue from the construction of apartment buildings for third parties. During the period, the largest projects of this kind were the design and construction of the Luccaranna and the Kastanikodu housing estates near Tallinn. Revenue generated by the



group's own development operations decreased, amounting to EUR5,510 thousand (H1 2022: EUR6,335 thousand). Nordecon continues the development of the Mõisavahe Kodu (<https://moisavahe.ee>) housing estate and the construction of the Emajõe Residents (<https://emajoeresidents.ee>) housing estate, which is situated near the city centre on the bank of the river Emajõgi (both 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, the design and construction of the Männiku commercial building in the Kandiküla district in Tartu, and the construction of a biopharmaceuticals manufacturing facility for Icosagen AS in Kambja municipality.

The largest projects under construction in the industrial and warehouse facilities subsegment are a production facility for E-Piim in Paide and a production and office building for Harju Elekter AS in Hüüru, near Tallinn.

Buildings segment	H1 2023	H1 2022	H1 2021	2022
Public buildings	33%	28%	30%	30%
Apartment buildings	31%	30%	30%	28%
Commercial buildings	25%	26%	31%	24%
Industrial and warehouse facilities	11%	16%	9%	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 25%. During the period, a major share of the subsegment's revenue resulted from the construction of the Tagadi ecoduct on the Rail Baltica route, the construction of the Neanurme-Pikknurme 2+1 road section of the Tallinn-Tartu-Võru-Luhamaa road in Jõgeva county and the reconstruction of the Hageri-Kohila road section in Harju county. The group also continues to deliver road maintenance services in Järva county.

The revenue contribution of the other engineering subsegment, which is currently generating most of its revenue from the construction of three wind farms (Saarde, Tootsi-Sopi and Aidu) in Estonia, increased year on year. The revenue of the environmental engineering subsegment came from design and construction works for the elimination of residual pollution from the Erra river and the Kiviõli ditch.

Infrastructure segment	H1 2023	H1 2022	H1 2021	2022
Road construction and maintenance	65%	81%	86%	75%



Other engineering	20%	14%	4%	20%
Environmental engineering	15%	0%	5%	0%
Specialist engineering	0%	5%	5%	5%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR256,328 thousand at 30 June 2023, reflecting 16% growth compared to the same period last year. The group signed new contracts of EUR208,460 thousand during the half year (H1 2022: EUR89,661 thousand), of which contracts of EUR123,530 thousand were signed in the second quarter (Q2 2022: EUR26,494 thousand). The surge in materials prices and the uptrend in interest rates due to the rise in EURIBOR have made development projects significantly more expensive and caused 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.

30 June 2023 30 June 2022 30 June 2021 31 Dec 2022

Order book (EUR'000)	256,328	220,687	269,448	149,799
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The proportions of the two main operating segments in the group's order book have remained largely the same with the Buildings segment accounting for 80% and the Infrastructure segment for 20% of the total order book (30 June 2022: 85% and 15%, respectively). The order book of the Buildings segment increased by 9% while the order book of the Infrastructure segment grew by 54% compared with 30 June 2022. Growth in the order book of the Infrastructure segment was driven by the other engineering subsegment, which has secured mostly wind farm construction contracts.

Larger contracts secured in the second quarter include:

- * the reconstruction of the Hageri-Kohila section on kilometres 8.7-16.0 of national road no. 11220 Kernu-Kohila with an approximate cost of EUR3,460 thousand;
- * the construction of wind turbine foundations for the Aidu wind farm in Ida-Viru county, Lüganuse municipality, with an approximate cost of EUR5,000 thousand;
- * the construction of four terraced houses with 36 apartments in the Laaneserva housing estate in Viimsi municipality with an approximate cost of EUR6,800 thousand;



- * the construction of a new school building with a sports facility for Saku Upper Secondary School with an approximate cost of EUR24,100 thousand;
- * the design and construction of storage facilities for the Centre for Defence Investment in Harju county with an approximate cost of EUR8,400 thousand;
- * the construction of an office building for the Centre for Defence Investment in Tallinn, with an approximate cost of EUR13,000 thousand;
- * the design and construction of a commercial and residential building to be built on the corner of Volta and Kopli streets in Tallinn - the second stage of a new business quarter - with an approximate cost of EUR51,000 thousand;
- * the construction of office and production facilities at Vana-Narva mnt 10 in Maardu, with an approximate cost of EUR7,400 thousand.

Based on the size of the group's order book, including the share of work to be performed in 2023 and 2024, and the overall 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 half of 2023 was 572, including 384 engineers and technical professionals (ETP). Headcount decreased by around 15% year on year, mainly due to the restructuring of the group's infrastructure construction business.

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

	H1 2023	H1 2022	H1 2021	2022
ETP	384	437	426	432
Workers	188	234	254	226
Total average	572	671	680	658

The group's staff costs for the first half of 2023, including all taxes, were EUR12,799 thousand compared with EUR12,936 thousand in the same period last year. Pressures for wage growth persist and the decline in staff costs was due to the decrease in workforce.

The service fees of the members of the council of Nordecon AS for the first half of 2023 were EUR79 thousand and associated social security charges were EUR26



thousand (H1 2022: EUR75 thousand and EUR25 thousand, respectively).
The service fees of the members of the board of Nordecon AS were EUR253 thousand and associated social security charges were EUR83 thousand (H1 2022: EUR202 thousand and EUR67 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:

	H1 2023	H1 2022	H1 2021	2022
Nominal labour productivity (rolling), (EUR '000)	488.3	470.0	403.3	490.4
Change against the comparative period, %	3.9%	16.5%	4.6%	16.5%
Nominal labour cost efficiency (rolling), (EUR)	11.0	12.3	10.9	11.8
Change against the comparative period, %	(11.0)%	13.0%	12.7%	2.9%

The group's nominal labour productivity increased year on year, mainly due to the decrease in the number of staff. The fall in revenue has lowered nominal labour cost efficiency.

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