

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

- NCN investor presentation Q4_2023.pdf (<http://oam.fi.ee/en/download?id=7981>)
- Nordecon_Interim_report_Q4_2023.pdf (<http://oam.fi.ee/en/download?id=7982>)
- NCN investor presentation Q4_2023.pdf (<http://oam.fi.ee/en/download?id=7983>)
- Nordecon_Aruanne_4Q_2023.pdf (<http://oam.fi.ee/en/download?id=7984>)

Currency

Title 2023 IV quarter and 12 months consolidated interim report (unaudited)

Economic environment

The construction market has experienced rapid evolution in recent years, with notable trends emerging in 2023 following developments that began in 2022. These shifts have profoundly impacted companies within the construction sector. Persistently high inflation and interest rates have sustained an atmosphere of tension. According to Statistics Estonia, the construction price index has seen consecutive increases, while escalating labour costs further drive up construction prices. Despite this upward trend in the construction price index, input prices have stabilized somewhat in the latter half of the year due to decreased demand. However, this stabilization is insufficient to immediately spur demand, leading to challenges in executing planned investments with allocated resources. This situation is mirrored in both private and public sector decision-making processes. Stakeholders are constantly seeking strategies to align pre-existing business plans with significant changes in input costs, resulting in prolonged pre-construction phases. The duration between tender submission and conclusion of contract can extend over several months, a phenomenon evident in public sector procurements as well. Public sector investments, which have been a significant market influencer, are projected to decrease further in 2024.

Group result

In 2023, the group's sales revenue totalled EUR278,382 thousand, marking a decrease of approximately 14% compared to the previous year. This decline in revenue was anticipated, reflecting the overall decrease in construction activity within the market. Notably, while the volume of the Buildings segment decreased by 19%, the sales revenue of the Infrastructure segment defied the



market trend, experiencing an 8% increase. This upward trajectory in infrastructure sales revenue can be attributed to significant projects in renewable energy and the accelerated construction of Rail Baltica. However, investments from one of the segment's key clients, the Transport Administration, saw a notable decrease during this period.

Despite successfully securing new contracts throughout the year, their impact on the overall sales revenue remained relatively modest in the reporting period. Nonetheless, the group's profitability improved, showcasing resilience amidst challenging market conditions. Gross profitability for the Nordecon Group reached 3.7% (up from 2.6% in 2022), with improvements observed in both the Buildings and Infrastructure segments. The completion of the group's Infrastructure segment reorganization, initiated in 2022 and finalized in the first half of 2023, significantly contributed to this enhanced profitability. Streamlining operations and optimizing resource utilization led to greater efficiency and improved profitability. However, the group did incur a one-time loss in the reporting year due to a long-term building segment contract from 2019, impacted by the rapid escalation of construction prices in recent years.

As of December 31, 2023, the group's order book stood at EUR216,732 thousand, reflecting an approximate 45% increase in unfinished work compared to the previous year. Throughout 2023, new contracts totalling EUR276,901 thousand were signed, including EUR85,575 thousand worth of contracts in the fourth quarter alone.

Condensed consolidated interim statement of financial position

EUR'000	31 December 2023	31 December 2022

ASSETS		
Current assets		
Cash and cash equivalents	11,892	7,238
Trade and other receivables	37,010	48,084
Prepayments	1,789	6,728
Inventories	25,879	25,454
Total current assets	76,570	87,504
Non-current assets		
Other investments	76	76
Trade and other receivables	9,113	8,604
Investment property	5,517	8,347



Property, plant and equipment	14,292	17,669
Intangible assets	14,964	15,134
Total non-current assets	43,962	49,830
TOTAL ASSETS	120,532	137,334

LIABILITIES

Current liabilities

Borrowings	10,188	17,193
Trade payables	39,797	65,144
Other payables	9,299	8,324
Deferred income	20,602	6,996
Provisions	1,129	1,288
Total current liabilities	81,015	98,945

Non-current liabilities

Borrowings	8,563	6,311
Trade payables	6,011	2,769
Provisions	2,405	2,049
Total non-current liabilities	16,979	11,129
TOTAL LIABILITIES	97,994	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	3,786	3,316
Retained earnings	919	2,691
Total equity attributable to owners of the parent	21,613	22,915
Non-controlling interests	925	4,345
TOTAL EQUITY	22,538	27,260
TOTAL LIABILITIES AND EQUITY	120,532	137,334

Condensed consolidated interim statement of comprehensive income

EUR '000	Q4 2023	2023	Q4 2022	2022
Revenue	77,998	278,382	83,685	322,860
Cost of sales	(76,442)	(268,056)	(80,454)	(314,365)
Gross profit	1,556	10,326	3,231	8,495
Marketing and distribution expenses	(153)	(715)	(177)	(490)
Administrative expenses	(2,899)	(8,915)	(2,148)	(7,287)
Other operating income	45	349	129	2,049
Other operating expenses	(277)	(489)	(70)	(462)
Operating profit (loss)	(1,728)	556	965	2,305
Finance income	5,219	5,510	84	258
Finance costs	(1,071)	(3,414)	(1,037)	(3,740)
Net finance income (costs)	4,148	2,096	(953)	(3,482)
Profit (loss) before tax	2,420	2,652	12	(1,177)
Income tax expense	0	(596)	(64)	(264)



Profit (loss) for the period	2,420	2,056	(52)	(1,441)
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Other comprehensive income (expense)
Items that may be reclassified
subsequently

Exchange differences on translating foreign operations	518	470	606	1,368
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Total other comprehensive income (expense)	518	470	606	1,368
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TOTAL COMPREHENSIVE INCOME (EXPENSE)	2,938	2,526	554	(73)
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Profit (loss) attributable to:

- Owners of the parent	1,510	(942)	(998)	(3,650)
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- Non-controlling interests	910	2,998	946	2,209
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Profit (loss) for the period	2,420	2,056	(52)	(1,441)
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Comprehensive income (expense)
attributable to:

- Owners of the parent	2,028	(472)	(392)	(2,282)
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- Non-controlling interests	910	2,998	946	2,209
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Comprehensive income (expense) for the period	2,938	2,526	554	(73)
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Earnings per share attributable to
owners of the parent:

Basic earnings per share (EUR)	0.05	(0.03)	(0.03)	(0.12)
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Diluted earnings per share (EUR)	0.05	(0.03)	(0.03)	(0.12)
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Condensed consolidated interim statement of cash flows



EUR '000	12M 2023	12M 2022
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Cash flows from operating activities		
Cash receipts from customers	345,372	390,195
Cash paid to suppliers	(294,828)	(351,483)
VAT paid	(12,337)	(8,880)
Cash paid to and for employees	(24,715)	(26,075)
Income tax paid	(615)	(291)
Net cash from operating activities	12,877	3,466
Cash flows from investing activities		
Acquisition of PPE	(362)	(688)
Acquisition of intangible assets	0	(122)
Proceeds from sale of PPE	431	816
Sale of subsidiary, net cash flow	(970)	0
Loans provided	(531)	(25)
Repayments of loans provided	22	25
Dividends received	12	6
Interest received	50	9
Net cash from (used in) investing activities	(1,348)	21
Cash flows from financing activities		
Proceeds from loans received	1,197	4,581
Repayments of loans received	(2,291)	(4,879)
Lease payments	(3,060)	(3,481)



Interest paid	(1,232)	(984)
Dividends paid	(1,494)	(488)
Other payments	6	(8)
Net cash used in financing activities	(6,874)	(5,259)

Net cash flow	4,655	(1,772)
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Cash and cash equivalents at beginning of period	7,238	9,031
Effect of movements in foreign exchange rates	(1)	(21)
Change in cash and cash equivalents	4,655	(1,772)
Cash and cash equivalents at end of period	11,892	7,238

Financial review

Financial performance

The group's profitability has improved in challenging market conditions. Nordecon ended 2023 with a gross profit of EUR10,326 thousand (2022: EUR8,495 thousand) and a gross margin of 3.7% (2022: 2.6%). Profitability improved for both operating segments, although the fourth quarter performance of the Buildings segment was weaker than a year earlier. The gross margins of the Buildings segment were 4.4% for the full year and 3.2% for the fourth quarter of 2023 (2022: 4.1%, Q4: 6.7%). The gross margins of the Infrastructure segment were 3.1% for the full year and (2.8)% for the fourth quarter (2022: (2.4)%, Q4: (12.1)%). The restructuring of the group's Infrastructure segment, which started in 2022 and was completed in the first half of 2023, has had a significant positive impact. Elimination of duplication of work has increased resource efficiency and thus profitability. Due to the surge in construction prices in recent years, the Buildings segment recorded a one-off loss on a long-term contract signed in 2019.

The group's administrative expenses for 2023 were EUR8,915 thousand. Compared with 2022, administrative expenses grew by 22% (2022: EUR7,287 thousand) due to growth in staff costs and an overall rise in the prices of goods and services. The ratio of administrative expenses to revenue (12 months rolling) was 3.2% (2022: 2.3%).

The group earned an operating profit of EUR556 thousand in 2023 (2022: EUR2,305 thousand). EBITDA for the period was EUR3,938 thousand and EBITDA margin was 1.4% (2022: EUR5,766 thousand and 1.8%). 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.

The group's finance income and costs resulted in net finance income of EUR2,096 thousand (2022: net finance costs of EUR3,482 thousand). The sale of the group's subsidiary Nordecon Betoön OÜ had the strongest effect on finance income. Finance income and costs are also influenced by exchange rate fluctuations in the group's foreign markets, particularly in Ukraine. In 2023, the Ukrainian hryvnia weakened against the euro by around 8%. The translation of the loans received by the group's Ukrainian subsidiaries in euros into the local currency gave rise to an exchange loss of EUR480 thousand (2022: a loss of EUR1,416 thousand). In 2022, finance income was affected by the write-down of a loan granted to the Ukrainian associate V.I. Center TOV by EUR825 thousand. Neither the foreign exchange loss nor the write-down affected cash flow.

The group ended the year with a net profit of EUR2,056 thousand (2022: a net loss of EUR1,441 thousand). The net loss attributable to owners of the parent, Nordecon AS, was EUR942 thousand (2022: a net loss of EUR3,650 thousand).

Cash flows

Operating activities produced a net cash inflow of EUR12,877 thousand in 2023 (2022: an inflow of EUR3,466 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 resulted in a net cash outflow of EUR1,348 thousand (2022: an inflow of EUR21 thousand). Payments made to acquire property, plant and equipment and intangible assets amounted to EUR362 thousand (2022: EUR810 thousand) and proceeds from the sale of property, plant and equipment amounted to EUR431 thousand (2022: EUR816 thousand). Loans provided amounted to EUR531 thousand (2022: EUR25 thousand). Proceeds from the sale of the subsidiary Nordecon Betoön OÜ were EUR9,050 thousand and cash outflow from the group's statement of financial position as a result of the sale was EUR10,030 thousand; the net effect of the transaction on the group's statement of cash flows was EUR(970) thousand.

Financing activities generated a net cash outflow of EUR6,874 thousand (2022: an outflow of EUR5,259 thousand). The largest items were cash flows related to loans and leases. Loans received amounted to EUR1,197 thousand, consisting of the use overdrafts and development loans (2022: EUR4,581 thousand). Repayments of loans received were EUR2,291 thousand (2022: EUR4,879 thousand), consisting of regular repayments of long-term investment and development loans. Lease payments were EUR3,060 thousand (2022: EUR3,481 thousand). Dividends paid in 2023 amounted to EUR1,494 thousand (2022: EUR488 thousand).

The group's cash and cash equivalents at 31 December 2023 amounted to EUR11,892 thousand (31 December 2022: EUR7,238 thousand).

Key financial figures and ratios

Figure/ratio	2023	2022	2021
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Revenue (EUR'000)	278,382	322,860	288,534
Revenue change	(13.8)%	11.9%	(2.5)%
Net profit (loss) (EUR'000)	2,056	(1,441)	(5,506)
Net profit (loss) attributable to owners of the parent (EUR'000)	(942)	(3,650)	(6,310)
Average number of shares	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.03)	(0.12)	(0.20)
Administrative expenses to revenue	3.2%	2.3%	2.1%
EBITDA (EUR'000)	3,938	5,766	(797)
EBITDA margin	1.4%	1.8%	(0.3)%
Gross margin	3.7%	2.6%	1.4%
Operating margin	0.2%	0.7%	(1.5)%
Operating margin excluding gain on non-current asset sales	0.1%	0.6%	(1.6)%
Net margin	0.7%	(0.4)%	(1.9)%
Return on invested capital	8.0%	(0.5)%	(6.5)%
Return on equity	8.3%	(5.2)%	(16.8)%
Equity ratio	18.7%	19.8%	20.8%
Return on assets	1.6%	(1.1)%	(4.1)%
Gearing	16.6%	32.0%	28.3%
Current ratio	0.95	0.88	0.94

31 Dec 2023 31 Dec 2022 31 Dec 2021

Order book (EUR'000)	216,732	149,799	266,856
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Performance by geographical market

Revenue generated outside Estonia, mostly in Ukraine and Finland, accounted for approximately 3% of the group's total revenue in 2023. Despite the ongoing war, Nordecon's construction volumes in Ukraine have increased. In 2023, we completed



and delivered construction phases I and II of a modular kindergarten with a bomb shelter in the city of Ovruch. Work continues on the reconstruction of substations and the installation of their physical protection. Finnish revenues, which mainly include 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. The group operates on a project basis in Latvia and Lithuania, but in the period under review Lithuania accounted for less than 1% of the group's revenue and the group did not earn any revenue in Latvia.

	2023	2022	2021
Estonia	97%	96%	94%
Ukraine	2%	0%	2%
Finland	1%	2%	3%
Lithuania	0%	1%	0%
Latvia	0%	1%	1%

Performance by business line

Segment revenues

We strive to maintain 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 decline sharply while the volumes of another may grow more rapidly.

The group's revenue for 2023 was EUR278,382 thousand, roughly 14% lower than in 2022, when the figure was EUR322,860 thousand. The Buildings segment generated revenue of EUR211,082 thousand and the Infrastructure segment revenue of EUR67,233 thousand. The corresponding figures for 2022 were EUR260,585 thousand and EUR62,048 thousand. The overall decrease in revenue was expected and is attributable to market contraction. Revenue declined by 19% in the Buildings segment, but increased by 8% in the Infrastructure segment. Although the group was successful in winning new contracts in 2023, these did not yet affect revenue for the period. High construction prices, mainly due to increased labour costs, combined with high interest rates and low demand, have delayed the start of development projects. The time lag between bidding and contract award may be several months, including for work tendered by the public sector. This also affected the group's order book in the reporting period. Investments by the Transport Administration, one of the main customers of the Infrastructure segment, have decreased sharply, and the segment's revenue growth is mainly driven by renewable energy projects and the pick-up in the Rail Baltica construction works.



Revenue by operating segment	2023	2022	2021
Buildings	76%	81%	75%
Infrastructure	24%	19%	25%

Subsegment revenues

In the Buildings segment, the largest contributor is still the public buildings subsegment, with revenue for 2023 roughly at the same level as in 2022. In other subsegments, revenues have contracted significantly: by 40% in the industrial and warehouse facilities subsegment, by 21% in the commercial buildings subsegment and by 22% in the apartment buildings subsegment.

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 extension of the Maarjamõisa Medical Campus of the University of Tartu Hospital (construction phase III) was completed in 2023 after a construction period of around three years.

The apartment buildings subsegment generates most of its revenue from the construction of apartment buildings for third parties. During the period, the largest projects were the design and construction of the Luccaranna and Kastanikodu housing estates near Tallinn. Revenue from the group's own development operations amounted to EUR10,273 thousand (2022: EUR11,459 thousand).

Nordecon is continuing the development of the Mõisavahe Kodu housing estate (<https://moisavahe.ee>) and the construction of the Emajõe Residents housing estate, which is situated near the city centre on the banks of the Emajõgi river (<https://emajoeresidents.ee>) in Tartu. The group is also proceeding with the design and preconstruction activities for 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 Vektor commercial and residential complex and the Ahtri 4 and Kopli 68A office buildings in Tallinn, the design and construction of the Männiku commercial building in the Kandiküla district of Tartu, and the construction of a biopharmaceutical manufacturing facility for Icosagen AS in Kambja municipality.

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

Buildings segment	2023	2022	2021
Public buildings	37%	30%	28%
Apartment buildings	27%	28%	29%



Commercial buildings	23%	24%	29%
Industrial and warehouse facilities	13%	18%	14%

The largest revenue contributor in the Infrastructure segment is still road construction and maintenance although in 2023 its revenue decreased by around 17%. 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 provides road maintenance services in Järva county.

The amount and share of revenue generated by the other engineering subsegment, which is currently involved in the construction of two wind farms (Tootsi-Sopi and Aidu) in Estonia, increased significantly compared with 2022. The revenue of the environmental engineering subsegment includes revenue from the design and construction of the Erra river and the Kiviõli ditch remediation projects.

Infrastructure segment	2023	2022	2021
Road construction and maintenance	63%	78%	87%
Other engineering	30%	20%	10%
Specialist engineering	0%	2%	0%
Environmental engineering	7%	0%	3%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR216,732 thousand at 31 December 2023, reflecting 45% growth compared to the end of 2022. In 2023, new contracts were signed for EUR276,901 thousand, including contracts of EUR85,575 thousand signed in the fourth quarter (excluding the contracts signed in 2023 by Nordecon Betoone OÜ, the subsidiary sold at the beginning of December). The corresponding amounts for 2022 were EUR163,498 thousand and EUR25,381 thousand.

	31 December 2023	31 December 2022	31 December 2021
Order book (EUR'000)	216,732	149,799	266,856

In terms of the breakdown of the order book between the two main operating segments, the share of the Buildings segment has further increased: it now accounts for 96% of the group's order book, while the Infrastructure segment accounts for 4% (31 December 2022: 88% and 12%, respectively). Compared with 31 December 2022, the order book of the Buildings segment has increased by 58% and that of the Infrastructure segment has decreased by 47%. 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 is partly offsetting the decline in investments made by the Transport Administration. Public investment in building construction has also declined, but according to currently available information investment in national defence infrastructure, a subsegment in which Nordecon has traditionally been very successful, will increase.

A significant proportion of contracts secured in the fourth quarter were signed by the Buildings segment. The largest of these were:

- * the design and construction of the LEED Gold compliant Golden Gate office building at Ahtri 6 in Tallinn with an approximate cost of EUR23,500 thousand;
- * the design and construction of a commercial building at Nõlvakaare 4 in Raadi village in Tartu county with an approximate cost of EUR4,900 thousand;
- * the construction of Loodusmaja (Nature Hub) at Vesilennuki 12 in Tallinn with an approximate cost of EUR54,300 thousand.

Although the order book has increased, management expects that in 2024 the group's business volumes will decline compared to 2023, mainly due to the sale of Nordecon Betoon OÜ. The increase in materials and energy prices and the rise in labour costs will continue to push up input prices, which will keep profit margins under pressure. In a fiercely competitive environment, we will avoid taking unjustified risks that could materialise in the contract execution phase and have an adverse impact on the group's results. We will continue to focus on cost control and pre-construction and design activities, where we can leverage our professional competitive advantages.

People

Employees and staff costs

The group's average number of employees in 2023 was 558, including 374 engineers and technical professionals (ETP). Headcount decreased by around 15% year on year, due to the restructuring of the group's Infrastructure segment and the sale of Nordecon Betoon OÜ at the beginning of December 2023.

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

	2023	2022	2021
ETP	374	432	434
Workers	184	226	251
Total average	558	658	685

The group's staff costs for 2023, including all taxes, were EUR27,145 thousand



compared with EUR27,248 thousand for 2022. Against a backdrop of continued upward pressure on wages, labour costs have remained at a level comparable to last year because the number of employees has decreased.

The service fees of the members of the council of Nordecon AS for 2023 were EUR179 thousand and the associated social security charges were EUR59 thousand (2022: EUR150 thousand and EUR50 thousand, respectively).

The service fees of the members of the board of Nordecon AS were EUR775 thousand and the associated social security charges were EUR255 thousand (2022: EUR417 thousand and EUR138 thousand, respectively). The fees include severance payments and associated social security charges for one member of the board, which amounted to EUR222 thousand (2022: nil) and EUR73 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:

	2023	2022	2021
Nominal labour productivity (rolling), (EUR '000)	499.3	490.4	420.8
Change against the comparative period, %	1.8%	16.5%	(0.5)%
Nominal labour cost efficiency (rolling), (EUR)	10.3	11.8	11.5
Change against the comparative period, %	(13.4)%	2.9%	5.5%

The group's nominal labour productivity increased year on year, mainly due to a decrease in the number of staff. Revenue decline has reduced nominal labour cost efficiency.

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