

Company Nordecon AS
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Attachments:

- NCN investor presentation Q2_2024.pdf (<http://oam.fi.ee/en/download?id=8637>)
- Nordecon_Interim_report_Q2_2024.pdf (<http://oam.fi.ee/en/download?id=8638>)
- NCN investor presentation Q2_2024.pdf (<http://oam.fi.ee/en/download?id=8639>)
- Nordecon_Aruanne_2Q_2024.pdf (<http://oam.fi.ee/en/download?id=8640>)

Currency

Title 2024 II quarter and 6 months consolidated interim report (unaudited)

In the first half of 2024, the construction market has experienced increasingly intense competition. Public sector orders remain low, and the pre-construction process in the private sector continues to be very lengthy. Analysts' forecasts for economic growth in the coming quarters are cautious, and the activities of private clients are in line with this outlook.

Despite the challenging economic conditions, the Nordecon Group has improved three key financial indicators in the first half of this year - revenue, profit, and the volume of order book.

The first half of 2024 for the Nordecon Group is primarily characterized by improved profitability. The Group's gross profit margin was 6.3% (3.2% in H1 2023) and 7.4% in the second quarter (3.4% in Q2 2023). Profitability improved in both the Buildings and Infrastructure segments, aided by better risk management in main contracts and the completion in 2023 of long-term contracts signed before the beginning of war in Ukraine, which were significantly affected by the rapid increase in construction input costs. The Group's net profit amounted to EUR1,802 thousand (a loss of EUR2,299 thousand in H1 2023).

Revenue for the first half of 2024 was EUR114,945 thousand, which is 33% higher compared to the continuing operations revenue for the same period last year. Revenue in the Buildings segment increased by 51%, while it decreased by 27% in the Infrastructure segment.

As of June 30, 2024, the volume of order book of the Group's companies was EUR178,799 thousand. Compared to the same period last year, the volume of unfinished work has increased by 15%. In the first half of the year, new contracts worth a total of EUR64,030 thousand were signed, with an additional EUR33,597 thousand worth of new contracts added in July following the reporting period.

Condensed consolidated interim statement of financial position



ASSETS

Current assets

Cash and cash equivalents	12,513	11,892
Trade and other receivables	41,368	37,010
Prepayments	3,576	1,789
Inventories	22,948	25,879
Total current assets	80,405	76,570

Non-current assets

Other investments	76	76
Trade and other receivables	9,519	9,113
Investment property	5,517	5,517
Property, plant and equipment	13,660	14,292
Intangible assets	14,975	14,964
Total non-current assets	43,747	43,962
TOTAL ASSETS	124,152	120,532

LIABILITIES

Current liabilities

Borrowings	11,064	10,188
Trade payables	62,115	39,855
Other payables	7,436	9,241
Deferred income	10,365	20,602
Provisions	671	1,129



Total current liabilities	91,651	81,015
Non-current liabilities		
Borrowings	4,137	8,563
Trade payables	2,107	6,011
Provisions	2,413	2,405
Total non-current liabilities	8,657	16,979
TOTAL LIABILITIES	100,308	97,994

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	3,951	3,786
Retained earnings	1,939	919
Total equity attributable to owners of the parent	22,798	21,613
Non-controlling interests	1,046	925
TOTAL EQUITY	23,844	22,538
TOTAL LIABILITIES AND EQUITY	124,152	120,532

Condensed consolidated interim statement of comprehensive income

EUR'000	H1 2024	Q2 2024	H1 2023	Q2 2023	2023
Continuing operations					
Revenue	114,945	68,700	86,526	52,977	186,464
Cost of sales	(107,751)	(63,644)	(83,743)	(51,179)	(182,655)



Gross profit	7,194	5,056	2,783	1,798	3,809
Marketing and distribution expenses	(172)	(104)	(226)	(122)	(497)
Administrative expenses	(3,373)	(1,809)	(2,984)	(1,397)	(6,564)
Other operating income	77	51	210	101	286
Other operating expenses	(458)	(312)	(186)	(158)	(465)
Operating profit (loss)	3,268	2,882	(403)	222	(3,431)
Finance income	317	180	131	62	613
Finance costs	(1,546)	(841)	(1,783)	(898)	(3,356)
Net finance costs	(1,229)	(661)	(1,652)	(836)	(2,743)
Profit (loss) before tax	2,039	2,221	(2,055)	(614)	(6,174)
Income tax expense	(237)	(237)	(244)	(1)	(244)
Profit (loss) for the period from continuing operations	1,802	1,984	(2,299)	(615)	(6,418)
Profit for the period from a discontinued operation	-	-	709	699	8,474
Profit (loss) for the period	1,802	1,984	(1,590)	84	2,056
Other comprehensive income Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	165	114	254	85	470
Total other comprehensive income	165	114	254	85	470
TOTAL COMPREHENSIVE INCOME					



(EXPENSE)	1,967	2,098	(1,336)	169	2,526
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Profit (loss) attributable to:

- Owners of the parent	1,020	1,613	(2,493)	(619)	(942)
- Non-controlling interests	782	371	903	703	2,998
Profit (loss) for the period	1,802	1,984	(1,590)	84	2,056

Comprehensive income (expense) attributable to:

- Owners of the parent	1,185	1,727	(2,239)	(534)	(472)
- Non-controlling interests	782	371	903	703	2,998

Comprehensive income (expense) for the period	1,967	2,098	(1,336)	169	2,526
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Earnings per share from continuing operations attributable to owners of the parent:

Basic earnings per share (EUR)	0.03	0.05	(0.10)	(0.04)	(0.31)
Diluted earnings per share (EUR)	0.03	0.05	(0.10)	(0.04)	(0.31)

Earnings per share from a discontinued operation attributable to owners of the parent:

Basic earnings per share (EUR)	-	-	0.02	0.02	0.28
Diluted earnings per share (EUR)	-	-	0.02	0.02	0.28

Condensed consolidated interim statement of cash flows

EUR '000	H1 2024	H1 2023*
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Cash flows from operating activities		
Cash receipts from customers	121,573	157,087
Cash paid to suppliers	(100,334)	(133,900)
VAT paid	(4,746)	(5,531)
Cash paid to and for employees	(10,142)	(12,640)
Income tax paid	(237)	(687)
Net cash from operating activities	6,114	4,329
Cash flows from investing activities		
Paid for acquisition of property, plant and equipment	(257)	(185)
Proceeds from sale of property, plant and equipment	78	291
Loans provided	(18)	(524)
Repayments of loans provided	1	10
Dividends received	6	12
Interest received	138	9
Other investments	(250)	0
Net cash used in investing activities	(302)	(387)
Cash flows from financing activities		
Proceeds from loans received	468	1,242
Repayments of loans received	(3,392)	(650)
Lease payments	(1,091)	(1,447)
Interest paid	(545)	(601)
Dividends paid	(661)	(1,355)



Other payments	50	0
Net cash used in financing activities	(5,171)	(2,811)
Net cash flow	641	1,131
Cash and cash equivalents at beginning of period	11,892	7,238
Effect of movements in foreign exchange rates	(20)	0
Change in cash and cash equivalents	641	1,131
Cash and cash equivalents at end of period	12,513	8,369

Financial review

Financial performance

Nordecon delivered a gross profit of EUR7,194 thousand in the first half of 2024 (H1 2023: EUR2,783 thousand). The group's gross margin improved significantly year on year, rising to 6.3% for the first half (H1 2023: 3.2%) and 7.4% for the second quarter (Q2 2023: 3.4%). Both main operating segments earned a profit in the first half and the second quarter of the year, showing a strong year-on-year margin improvement. The gross margin of the Buildings segment was 7.7% for both the first half and the second quarter (H1 2023: 4.9% and Q2 2023: 3.6%). The Infrastructure segment's gross margin was lower, reaching 0.9% for the first half and 8.5% for the second quarter of 2024 (H1 2023: 0.1% and Q2 2023: 4.5%). While both segments have improved their profit margins, the volumes of the Infrastructure segment are low and therefore most of the group's profit was generated by the Buildings segment. The margin improvement was supported by better mitigation of the risks associated with general contracting and by the fact that several long-term contracts signed before the war, which were severely affected by an earlier surge in construction input prices, expired in 2023. The group's administrative expenses for the first half of 2024 amounted to EUR3,373 thousand. Administrative expenses increased by around 13% compared to the first half of 2023, when the figure was EUR2,984 thousand. The rise was attributable to staff costs, which were strongly influenced by the recognition of a provision for performance-related pay. The ratio of administrative expenses to revenue (12 months rolling) increased year on year, rising to 3.2% (H1 2023: 3.0%).

The group ended the first half of 2024 with an operating profit of EUR3,268 thousand (H1 2023: an operating loss of EUR403 thousand). EBITDA for the period was EUR4,690 thousand (H1 2023: EUR1,149 thousand).

The group's finance income and costs are affected by exchange rate fluctuations in the group's foreign markets. During the period, the exchange rate of the



Ukrainian hryvnia weakened against the euro by around 2.7%, while the exchange rate of the Swedish krona weakened against the euro by around 2.3%. As a result, the translation of the loans provided to the group's Ukrainian and Swedish subsidiaries in euros into the local currencies gave rise to an exchange loss of EUR163 thousand (H1 2023: EUR241 thousand).

The group's net profit for the period was EUR1,802 thousand (H1 2023: a net loss of EUR2,299 thousand). The net profit attributable to owners of the parent, Nordecon AS, was EUR1,020 thousand (H1 2023: a net loss of EUR2,493 thousand).

Cash flows

Operating activities produced a net cash inflow of EUR6,114 thousand in the first half of 2024 (H1 2023: an inflow of EUR4,329 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 EUR302 thousand (H1 2023: an outflow of EUR387 thousand). Payments for the purchase of property, plant and equipment totalled EUR257 thousand (H1 2023: EUR185 thousand) and proceeds from the sale of property, plant and equipment totalled EUR78 thousand (H1 2023: EUR291 thousand). Loans provided amounted to EUR18 thousand (H1 2023: EUR524 thousand), interest received to EUR138 thousand (H1 2023: EUR9 thousand) and investments in long-term deposits to EUR250 thousand (H1 2023: EURnil). Financing activities generated a net cash outflow of EUR5,171 thousand (H1 2023: an outflow of EUR2,811 thousand). Proceeds from loans received amounted to EUR468 thousand (H1 2023: EUR1,242 thousand), consisting of the use of development loans. Repayments of loans received totalled EUR3,392 thousand (H1 2023: EUR650 thousand), consisting of regular repayments of long-term investment and development loans and the change in the overdraft balance. Lease payments amounted to EUR1,091 thousand (H1 2023: EUR1,447 thousand). Dividends paid in the first half of 2024 amounted to EUR661 thousand (H1 2023: EUR1,355 thousand). The group's cash and cash equivalents as at 30 June 2024 amounted to EUR12,513 thousand (30 June 2023: EUR8,369 thousand).

Key financial figures and ratios

Figure/ratio	H1 2024	H1 2023	H1 2022	2023
Revenue (EUR'000)*	114,945	86,526	102,073	186,464
Revenue change*	33%	(15)%	18%	(15.4)%
Net profit (loss) (EUR'000)*	1,802	(2,299)	(1,125)	(6,418)
Net profit (loss) attributable to owners of the parent (EUR'000)	1,020	(2,493)	(928)	(942)



Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	0.03	(0.08)	(0.03)	(0.03)
Administrative expenses to revenue*	2.9%	3.4%	2.5%	3.5%
Administrative expenses to revenue (rolling)*	3.2%	3.0%	2.1%	3.5%
EBITDA (EUR'000)*	4,690	1,149	1,847	(412)
EBITDA margin*	4.1%	1.3%	1.8%	(0.2)%
Gross margin*	6.3%	3.2%	1.1%	2.0%
Operating margin*	2.8%	(0.5)%	0.3%	(1.8)%
Operating margin excluding gain on non-current asset sales*	2.8%	(0.7)%	0.1%	(2.0)%
Net margin*	1.6%	(2.7)%	(1.1)%	(3.4)%
Return on invested capital	6.2%	(1.0)%	1.2%	8.0%
Return on equity	7.8%	(6.1)%	0.1%	8.3%
Equity ratio	19.2%	17.1%	18.2%	18.7%
Return on assets	1.5%	(1.1)%	0.0%	(1.6)%
Gearing	6.9%	30.0%	37.2%	16.6%
Current ratio	0.88	0.89	0.91	0.95

30 June 2024 30 June 2023 30 June 2022 31 Dec 2023

Order book (EUR'000)*	178,799	155,133	184,420	216,732
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*Continuing operations

Due to the sale of Nordecon Betoön OÜ and NOBE Rakennus OY at the beginning of December 2023, the business of those companies has been classified as a discontinued operation. The discontinued operation's revenues and expenses for



comparative periods are presented separately in the consolidated statement of comprehensive income within Profit (loss) from a discontinued operation.

Performance by geographical market

Revenue generated outside Estonia remained stable compared to the first half of 2023, accounting for around 2% of the group's total revenue for the first half of 2024. The main foreign market was Ukraine. Despite the war, Nordecon's construction volumes in Ukraine increased, particularly in the second quarter. Work continued on the reconstruction of substations and the installation of associated physical protection systems in the Poltava, Zhytomyr, Volyn and Ivano-Frankivsk regions of Ukraine under contracts secured in 2023. The group did not generate any revenue and had no ongoing construction contracts in the Swedish market. With the sale of Nordecon Betoon OÜ at the beginning of December 2023, the group also withdrew from the Finnish market, where it had operated through Nordecon Betoon OÜ's subsidiary NOBE Rakennus OY. The group operated on a project basis in Latvia.

	H1 2024	H1 2023	H1 2022	2023
Estonia	98%	98%	97%	97%
Ukraine	2%	1%	0%	2%
Finland	-	1%	1%	1%
Latvia	-	0%	2%	0%

Performance by business line

Segment revenues

We strive to maintain a balance between the revenues of our two main operating segments (Buildings and Infrastructure) as far as market developments allow, as this helps diversify risks and provides better opportunities to continue construction activities in more challenging market conditions, where volumes in one subsegment decline sharply while volumes in another subsegment start to grow more rapidly.

The group's revenue for the first half of 2024 was EUR114,945 thousand, around 33% higher than in the same period last year, when revenue from continuing operations amounted to EUR86,526 thousand. The Buildings segment generated revenue of EUR100,421 thousand and the Infrastructure segment revenue of EUR14,486 thousand. The corresponding figures for the first half of 2023 were EUR66,651 thousand and EUR19,821 thousand. Revenue generated by the Buildings segment increased by 51%, while revenue generated by the Infrastructure segment decreased by 27%. The revenue growth and changes in the performance of the reportable segments were expected and in line with the group's order book.

Revenue by operating segment	H1 2024	H1 2023	H1 2022	2023
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Buildings	87%	77%	80%	74%
Infrastructure	13%	23%	20%	26%

Subsegment revenues

In the Buildings segment, the public buildings subsegment doubled its revenue and the commercial buildings subsegment increased its revenue by 27% compared to the same period last year. The revenue of the industrial and warehouse facilities subsegment was also modest in previous years and therefore the decline compared to the same period last year was not significant (6%), but the revenue of the apartment buildings subsegment decreased considerably (38%), particularly revenue from apartment construction contracts, which reflects the current market situation in the subsegment.

The period's largest projects in the public buildings subsegment were the construction of the main building of the Estonian Internal Security Service and Loodusmaja (Nature Hub) in Tallinn, the design and construction of warehouse complexes for the Centre for Defence Investment in Luunja and Nõo rural municipalities in Tartu County and in Ida-Viru County, the design and construction of a new study and sports building for the Saku Upper Secondary School near Tallinn, the reconstruction of the building of the Karlova School in Tartu and the design and construction of a study building for the Centre for Defence Investment on the Raadi campus in Tartu.

Revenue generated by the apartment buildings subsegment consisted of revenue from the construction of the commercial and residential complex Vektor and the group's own development projects. Revenue from our own development operations increased year on year, rising to EUR6,174 thousand (H1 2023: EUR5,510 thousand).

The amount includes revenue from the sale of apartments in Tartu - in the Mõisavahe Kodu housing estate and the centrally located Emajõe Residents housing estate on the banks of the Emajõgi river (<https://emajoeresidents.ee>). We continued the construction of phase 1 of the Seileri Kvartal housing estate in Pärnu (<https://seileri.ee>), scheduled to be completed in spring 2025, and started the development of the Tammepärja Kodu housing estate in the Tammelin district in Tartu (<https://tammelinn.ee>). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects under construction in the commercial buildings subsegment were the commercial and residential complex Vektor and the LEED Gold compliant Golden Gate office building at Ahtri 6 in Tallinn and the design and construction of a commercial building at Nõlvakaare 4 at Raadi in Tartu County. The revenue of the industrial and warehouse facilities subsegment resulted from small projects.

Buildings segment	H1 2024	H1 2023	H1 2022	2023
Public buildings	68%	33%	28%	37%
Commercial buildings	20%	25%	26%	23%



Apartment buildings	9%	31%	30%	27%
Industrial and warehouse facilities	3%	11%	16%	13%

The largest revenue contributor in the Infrastructure segment was road construction and maintenance although its revenue decreased by around 8% compared with a year earlier. A major share of the subsegment's revenue for the period resulted from the construction of an armoured manoeuvre shooting range and roads in Harju County, the reconstruction of the Mäeküla-Koeru-Kapu road section, the provision of road maintenance services in Järva County and the construction of the Tagadi ecoduct (wildlife crossing) on the Rail Baltica route.

Infrastructure segment	H1 2024	H1 2023	H1 2022	2023
Road construction and maintenance	93%	65%	81%	63%
Other engineering	7%	20%	14%	30%
Environmental engineering	0%	15%	0%	7%
Specialist engineering	0%	0%	5%	0%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR178,799 thousand at 30 June 2024. Compared to the same period last year, the order book has grown by 15%. In the first half of 2024, we signed new contracts for EUR64,030 thousand (H1 2023: EUR100,632 thousand), of which EUR46,413 thousand in the second quarter (Q2 2023: EUR58,771 thousand). After the reporting date, we have signed additional new contracts for EUR33,597 thousand. The rise in construction input prices and the increase in interest rates due to the rise in the EURIBOR rates in recent years have caused a sharp increase in the cost of development projects and, consequently, the postponement of new projects. Investment by the Transport Administration has decreased significantly, which has had a direct impact on the order book of our Infrastructure segment. The volumes of work procured for the Rail Baltica project have increased and will partially offset the decline in investment by the Transport Administration, but the excessive length of the procurement processes makes it difficult to predict the potential start dates of the work and the impact on revenue. While public investment in building construction has also declined, we no some investment activity at local authority level.

30 June 2024 30 June 2023 30 June 2022 31 December 2023

Order book (EUR'000)*	178,799	155,133	184,420	216,732
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*Continuing operations



The share of the Buildings segment in the group's order book has increased: at 30 June 2024, the Buildings segment accounted for 90% and the Infrastructure segment for 10% of the group's total order book (30 June 2023: 83% and 17%, respectively). Compared to 30 June 2023, the order book of the Buildings segment has increased by 26%, with the strongest increase in the order book of the public buildings subsegment. The order book of the Infrastructure segment has decreased by 35%, mainly due a decrease in the order book of the road construction and maintenance subsegment.

Major contracts secured during the period include:

- * the construction of an armoured manoeuvre shooting range and roads for the Centre for Defence Investment in Harju County with an approximate cost of EUR5,450 thousand;
- * the construction of a modern war and disaster medicine centre for the Centre for Defence Investment in Tartu with an approximate cost of EUR15,000 thousand (the group is one of the joint bidders);
- * the construction of a Lidl store in Võru with an approximate cost of EUR3,900 thousand;
- * the construction of a platform area for Class E aircraft at Tallinn Airport with an approximate cost of EUR7,500 thousand;
- * the construction of a building complex in the Port Athena quarter at Väike-Turu 7 in Tartu. The complex consists of four six-storey buildings, one seven-storey building and a common basement level used mainly for parking. The approximate cost of the contract is EUR26,000 thousand.

Management expects the group's revenue to increase slightly in 2024 compared to the revenue generated by continuing operations in 2023. In a highly competitive environment, we will avoid taking unjustified risks that could materialise during the contract execution phase and have an adverse impact on the group's results. We will focus on cost management and pre-construction and design activities where we can leverage our professional competitive advantages.

People

Employees and staff costs

The average number of the group's employees (at the parent and the subsidiaries) in the first half of 2024 was 430, including 282 engineers and technical professionals (ETP). Headcount decreased by around 25% year on year, due to the restructuring of the group's Infrastructure segment and the sale of Nordecon Betoon OÜ and NOBE Rakennus OY at the beginning of December 2023.

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

	H1 2024	H1 2023	H1 2022	2023
ETP	282	384	437	374



Workers	148	188	234	184
Total average	430	572	671	558

The group's staff costs from continuing operations, including all taxes, were EUR10,127 thousand in the first half of 2024, compared with EUR9,361 thousand in the same period last year. Staff costs have increased by around 8%, driven by general wage pressures and the recognition of a provision for performance pay. The service fees of the members of the council of Nordecon AS for the first half of 2024 totalled EUR100 thousand and the related social security charges amounted to EUR33 thousand (H1 2023: EUR79 thousand and EUR26 thousand, respectively). The service fees of the members of the board of Nordecon AS totalled EUR264 thousand and the related social security charges amounted to EUR87 thousand (H1 2023: EUR253 thousand and EUR83 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 the staff costs incurred:

	H1 2024	H1 2023	H1 2022	2023
Nominal labour productivity (rolling), (EUR'000)	553.9	488.3	470.0	499.3
Change against the comparative period, %	13.4%	3.9%	16.5%	1.8%
Nominal labour cost efficiency (rolling), (EUR)	11.0	11.0	12.3	10.3
Change against the comparative period, %	0.4%	(11.0)%	13.0%	(13.4)%

The group's nominal labour productivity for the period increased year on year due to a decrease in the average number of employees.

Andri Hõbemägi
Nordecon AS
Head of Investor Relations
Tel: +372 6272 022
Email: andri.hobemagi@nordecon.com (<mailto:andri.hobemagi@nordecon.com>)
www.nordecon.com (<http://www.nordecon.com>)

