

Company Nordecon AS  
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Attachments:

- Nordecon-10004009551-en.pdf (<http://oam.fi.ee/en/download?id=4784>)
- Nordecon-10004009552-en.pdf (<http://oam.fi.ee/en/download?id=4785>)
- Nordecon-10004009554-et.pdf (<http://oam.fi.ee/en/download?id=4786>)
- Nordecon-10004009555-et.pdf (<http://oam.fi.ee/en/download?id=4787>)

Currency

Title 2020 II quarter and 6 months consolidated interim report (unaudited)

Nordecon Group's financial results of the first half of 2020 as compared to the same period from the last year are characterised by substantial growth in revenue, improved gross and operating margins as well as exchange rate losses related to Ukrainian hryvnia. Also, the order book has increased year on year with new substantial contracts signed in July adding to this figure. At the same time, the volume of private orders has decreased significantly, which has been directly influenced by the worldwide COVID-19 crisis and the rapid deterioration of economic conditions. This has resulted in increased price pressure put on the main contractors by the demand side, whereas on the other side there has still been no expected decrease in the input prices. In these circumstances there is strong pressure on profit margins.

Condensed consolidated interim statement of financial position

EUR '000	30 June 2020	31 December 2019
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ASSETS		
Current assets		
Cash and cash equivalents	9,421	7,032
Trade and other receivables	53,272	37,563
Prepayments	3,987	1,813
Inventories	22,856	21,142



Total current assets	89,536	67,550
Non-current assets		
Investments in equity-accounted investees	1,316	2,369
Other investments	26	26
Trade and other receivables	8,575	8,435
Investment property	6,301	5,530
Property, plant and equipment	18,401	19,002
Intangible assets	14,815	14,736
Total non-current assets	49,434	50,098
TOTAL ASSETS	138,970	117,648

#### LIABILITIES

##### Current liabilities

Borrowings	17,215	11,058
Trade payables	51,339	40,730
Other payables	10,492	7,954
Deferred income	9,824	6,391
Provisions	628	716
Total current liabilities	89,498	66,849

##### Non-current liabilities

Borrowings	8,776	16,326
Trade payables	2,889	98
Other payables	177	177
Provisions	1,731	1,425



Total non-current liabilities	13,573	18,026
TOTAL LIABILITIES	103,071	84,875
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	1,984	1,169
Retained earnings	13,723	12,383
Total equity attributable to owners of the parent	32,615	30,460
Non-controlling interests	3,284	2,313
TOTAL EQUITY	35,899	32,773
TOTAL LIABILITIES AND EQUITY	138,970	117,648

Condensed consolidated interim statement of comprehensive income

EUR '000	H1 2020	Q2 2020	H1 2019	Q2 2019	2019
Revenue	136,798	81,874	100,441	65,917	234,071
Cost of sales	-130,791	-77,055	-97,147	-62,669	-222,302
Gross profit	6,007	4,819	3,294	3,248	11,769
Marketing and distribution expenses	-202	-74	-498	-152	-784
Administrative expenses	-3,860	-2,061	-3,048	-1,555	-6,837
Other operating income	178	29	67	11	315



Other operating expenses	-110	-57	-20	-7	-193
Operating profit/loss	2,013	2,656	-205	1,545	4,270
Finance income	249	193	495	224	1,277
Finance costs	-1,241	338	-663	-299	-1,219
Net finance costs/income	-992	531	-168	-75	58
Share of profit of equity-accounted investees	479	510	252	302	585
Profit/loss before income tax	1,500	3,697	-121	1,772	4,913
Income tax expense	-81	-81	-453	-453	-764
Profit/loss for the period	1,419	3,616	-574	1,319	4,149
Other comprehensive income: Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	815	-434	-262	-218	-823
Total other comprehensive income/expense	815	-434	-262	-218	-823
TOTAL COMPREHENSIVE INCOME/EXPENSE	2,234	3,182	-836	1,101	3,326
Profit/loss attributable to:					
- Owners of the parent	-156	2,513	-793	1,169	3,378
- Non-controlling interests	1,575	1,103	219	150	771
Profit/loss for the period	1,419	3,616	-574	1,319	4,149



Total comprehensive  
income/expense attributable to:

- Owners of the parent	659	2,079	-1,055	951	2,555
- Non-controlling interests	1,575	1,103	219	150	771

Total comprehensive income/expense for the period	2,234	3,182	-836	1,101	3,326
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Earnings per share attributable  
to owners of the parent:

Basic earnings per share (EUR)	-0.01	0.08	-0.03	0.04	0.11
Diluted earnings per share (EUR)	-0.01	0.08	-0.03	0.04	0.11

#### Condensed consolidated interim statement of cash flows

EUR '000	H1 2020	H1 2019
Cash flows from operating activities		
Cash receipts from customers	154,207	108,300
Cash paid to suppliers	-132,626	-93,163
VAT paid	-6,055	-2,104
Cash paid to and for employees	-13,658	-11,385
Income tax paid	-81	-146
Net cash from operating activities	1,787	1,502
Cash flows from investing activities		
Paid on acquisition of property, plant and equipment	-102	-165
Proceeds from sale of property, plant and equipment	165	99
Acquisition of a subsidiary	-2	0



Cash received on acquisition of a subsidiary	3,605	0
Loans provided	-14	-14
Repayment of loans provided	21	6
Dividends received	251	244
Interest received	5	5
Net cash from investing activities	3,929	175
Cash flows from financing activities		
Proceeds from loans received	1,228	3,328
Repayment of loans received	-2,077	-2,265
Lease payments made	-1,487	-1,574
Interest paid	-508	-481
Dividends paid	-472	-2,129
Net cash used in financing activities	-3,316	-3,121
Net cash flow	2,400	-1,444
Cash and cash equivalents at beginning of period	7,032	7,678
Effect of movements in foreign exchange rates	-11	-14
Increase/decrease in cash and cash equivalents	2,400	-1,444
Cash and cash equivalents at end of period	9,421	6,220

#### Financial review

#### Financial performance

Nordecon ended the first half of 2020 with a gross profit of 6,007 thousand euros (H1 2019: 3,294 thousand euros). The gross margin improved noticeably year



on year, rising to 4.4% for the first half (H1 2019: 3.3%) and 5.9% for the second quarter (Q2 2019: 4.9%). Both of our operating segments, Buildings and Infrastructure, earned a profit in the first half and the second quarter of 2020. The gross margin of the Buildings segment, which was 5.0% for the first half and 5.5% for the second quarter, dropped somewhat compared the same period in 2019 (H1 2019: 5.5% and Q2 2019: 6.1%). The slight margin decrease is attributable to a housing development project completed in Sweden, which resulted in a loss. The Infrastructure segment, on the other hand, succeeded in improving its gross margin substantially. This was supported by an earlier start of the road construction season and a strong order book. Asphalt concrete production in the second quarter grew year on year, providing cover for fixed costs, the largest share of which is made up of costs related to plant and equipment required for asphalt concrete production and laying. The Infrastructure segment's gross margins were 3.4% for the first half and 8.7% for the second quarter compared to 1.4% and 3.5% in the corresponding periods in 2019.

The Group's administrative expenses for the first half of 2020 totalled 3,860 thousand euros. Compared to the same period in 2019, administrative expenses increased by around 27% (H1 2019: 3,048 thousand euros). The rise is attributable to growth in personnel expenses and depreciation as well as the fact that Embach Ehitus OÜ became a subsidiary of the Group. The ratio of administrative expenses to revenue (12 months rolling) decreased compared to the same period last year and was 2.8% (H1 2019: 2.9%).

The Group ended the first half of 2020 with an operating profit of 2,013 thousand euros (H1 2019: an operating loss of 205 thousand euros). EBITDA was positive at 3,694 thousand euros (H1 2019: 1,281 thousand euros).

Finance income and costs continued to be influenced by exchange rate fluctuations in the Group's foreign markets. During the period, the Ukrainian hryvnia weakened against the euro by 11.8% and the Group recognised a foreign exchange loss of 704 thousand euros from the translation of loans provided to the Ukrainian subsidiaries in euros (H1 2019: an exchange gain of 377 thousand euros). The Swedish krona/euro exchange rate did not change significantly in the first half of 2020. The exchange gain recognised in finance income in connection with the translation of the loan provided to the Swedish subsidiary in euros amounted to 132 thousand euros (H1 2019: an exchange loss of 206 thousand euros). On the other hand, the movements in foreign exchange rates increased the foreign currency translation reserve in equity by 815 thousand euros (H1 2019: reduced by 262 thousand euros).

The Group's net profit amounted to 1,419 thousand euros (H1 2019: a net loss of 574 thousand euros). The amount attributable to owners of the parent, Nordecon AS, was a loss of 156 thousand euros (H1 2019: a loss of 793 thousand euros).

#### Cash flows

In the first half of 2020, operating activities produced a net cash inflow of 1,787 thousand euros (H1 2019: an inflow of 1,502 thousand euros). The key factor that affects operating cash flow is the mismatch between the settlement terms agreed with customers and suppliers. Operating cash flow is also 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, materials suppliers, etc. 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 inflow of 3,929 thousand euros (H1 2019: an inflow of 175 thousand euros). The transaction with the strongest impact was the transformation of Embach Ehitus OÜ from an associate into a subsidiary, which generated cash inflow of 3,605 thousand euros. Cash flow was also influenced by payments made for the acquisition of property, plant and equipment of 102 thousand euros (H1 2019: 165 thousand euros), proceeds from the sale of property, plant and equipment of 165 thousand euros (H1 2019: 99 thousand euros) and dividends received of 251 thousand euros (H1 2019: 244 thousand euros).

Financing activities generated a net cash outflow of 3,316 thousand euros (H1 2019: an outflow of 3,121 thousand euros). The largest items were loan and lease payments and dividends paid. Proceeds from loans received totalled 1,228 thousand euros, comprising the use of the overdraft facility and development loans (H1 2019: 3,328 thousand euros). Loan repayments totalled 2,077 thousand euros (H1 2019: 2,265 thousand euros), consisting of regular repayments of long-term investment and development loans. Lease payments totalled 1,487 thousand euros (H1 2019: 1,574 thousand euros). Dividends paid in the first half of 2020 amounted to 472 thousand euros (H1 2019: 2,129 thousand euros).

The Group's cash and cash equivalents totalled 9,421 thousand euros at 30 June 2020 (30 June 2019: 6,220 thousand euros). Management's commentary on liquidity risks is presented in the chapter Description of the main risks.

#### Key financial figures and ratios

Figure/ratio	H1 2020	H1 2019	H1 2018	2019
Revenue (EUR '000)	136,798	100,441	105,658	234,071
Revenue change	36%	-5%	2%	4.7%
Net profit/loss (EUR '000)	1,419	-574	-524	4,149
Net profit/loss attributable to owners of the parent (EUR '000)	-156	-793	-532	3,378
Weighted average number of shares	31,528,585	31,528,585	30,986,585	31,528,585
Earnings per share (EUR)	0.00	-0.03	-0.02	0.11
Administrative expenses to revenue	2.8%	3.0%	3.2%	2.9%





Administrative expenses to revenue (rolling)	2.8%	2.9%	3.1%	2.9%
EBITDA (EUR '000)	3,694	1,281	606	7,311
EBITDA margin	2.7%	1.3%	0.6%	3.1%
Gross margin	4.4%	3.3%	3.0%	5.0%
Operating margin	1.5%	-0.2%	-0.4%	1.8%
Operating margin excluding gain on asset sales	1.5%	-0.3%	-0.4%	1.7%
Net margin	1.0%	-0.6%	-0.5%	1.8%
Return on invested capital	3.3%	0.6%	0.5%	10.0%
Return on equity	4.1%	-1.8%	-1.6%	12.5%
Equity ratio	25.8%	25.5%	25.4%	27.9%
Return on assets	1.1%	-0.5%	-0.4%	3.7%
Gearing	26.8%	36.7%	35.2%	33.8%
Current ratio	1.00	0.93	0.98	1.01

As at 30 June 2020 30 June 2019 30 June 2018 31 Dec 2019

Order book (EUR '000)	187,018	179,691	131,552	227,545
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#### Performance by geographical market

The revenue contribution of foreign markets continued to grow. Revenue earned outside Estonia accounted for 12% of total revenue for in the first half of 2020 compared with 9% for the same period in 2019.

	H1 2020	H1 2019	H1 2018	2019
Estonia	88%	91%	93%	89%
Sweden	6%	2%	2%	5%
Finland	5%	4%	1%	4%



The revenue contribution of the Swedish market grew significantly year on year. During the period, we worked in Sweden on three building construction contracts secured as a general contractor and one concrete work subcontract. Finnish revenues remained stable compared with the same period last year and resulted from concrete works in the building construction segment. Revenue generated in the Ukrainian market and its proportionate share in our total revenue decreased. Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on one market. However, conditions in some of our chosen foreign markets are also volatile and have a strong effect on our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic targets. Our vision of the Group's foreign operations is described in the chapter Outlooks of the Group's geographical markets.

#### Performance by business line

##### Segment revenues

The Group's revenue for in the first half of 2020 amounted to 136,798 thousand euros, a roughly 36% improvement on the 100,441 thousand euros generated in the first half of 2019. Based on the order book at the end of 2019, revenue growth was entirely expected. Growth was driven by the Buildings segment which increased revenue by 48%. The revenue of the Infrastructure segment remained comparable to the first half of 2019.

The limited volume of infrastructure construction projects, which is affecting the entire Estonian construction market, is also reflected in our revenue structure. In the first half of 2020, our Buildings and Infrastructure segments generated revenue of 112,607 thousand euros and 24,106 thousand euros, respectively. The corresponding figures for in the first half of 2019 were 76,065 thousand euros and 24,213 thousand euros.

Operating segments	H1 2020	H1 2019	H1 2018	2019
Buildings	81%	74%	76%	70%
Infrastructure	19%	26%	24%	30%

##### Subsegment revenues

All subsegments in the Buildings segment improved their revenue year on year. The strongest revenue contributors were the public buildings, commercial buildings and apartment buildings subsegments while the revenue contribution of the industrial and warehouse facilities subsegment continued to be modest.

The largest revenue source in the Buildings segment was the public buildings subsegment, which increased its revenue more than two times compared to the first half of 2019. The subsegment's biggest projects were the Estonian Academy of Security Sciences and the University of Tartu Learning Centre in Narva, a



storage complex at the defence forces' base at Tapa, Kindluse Kool - a new basic school in Järveküla near Tallinn and the Annelinn upper secondary school in Tartu.

During the period, the largest projects of the commercial buildings subsegment were in Tallinn: the reconstruction and extension of the building of Terminal D in the Old City Harbour, construction works in phase I and concrete works in phase II of the Porto Franco commercial and office development next to the Admiralty Basin, and the construction of a seven-floor commercial building in Rotermann City and a multi-storey car park at Sepapaja 1.

A significant share of our Estonian apartment building projects is located in Tallinn. During the period under review, the largest of them were the design and construction of the first two phases of the Kalaranna quarter and the design and construction of the Tiskreoja residential area on the western border of Tallinn. Similarly to previous periods, a major share of the subsegment's revenue came from the construction of apartment buildings in Sweden.

We continue to build our own housing development projects in Tallinn and Tartu (reported in the apartment buildings subsegment). During the period, we completed a five-floor apartment building with 24 apartments at Võidujooksu 8c in Tallinn ([www.voidujooksu.ee](http://www.voidujooksu.ee)). Revenue from our own real estate development operations amounted to 2,354 thousand euros (H1 2019: 3,792 thousand euros). In carrying out our own real estate development activities, we monitor closely potential risks in the housing development market.

The amount and share of revenue generated by the industrial and warehouse facilities subsegment grew year on year. However, the values of projects in progress have decreased, amounting to 2 million euros on average. Based on the order book, we expect that the subsegment's revenue contribution will remain modest in 2020.

Revenue breakdown in the Buildings segment	H1 2020	H1 2019	H1 2018	2019
Public buildings	34%	24%	26%	29%
Commercial buildings	30%	35%	36%	36%
Apartment buildings	27%	33%	23%	27%
Industrial and warehouse facilities	9%	8%	15%	8%

Similarly to previous periods, the main revenue source in the Infrastructure segment was road construction and maintenance. A significant share of revenue resulted from the performance of construction contracts secured in 2019: the construction of the Kernu bypass and the Kernu filling station and Haiba junctions on the Tallinn-Pärnu-Ikla road, the reconstruction of the Vinso-Kirmsi section of the Võru-Räpina road and the construction of roads in the northern and southern parts of the defence forces' central training area. We also continued to provide road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

The revenue of the other engineering subsegment is strongly influenced by the construction of foundations for 73 wind turbines in the Nysäter wind farm, which



being built in northern Sweden, near Sundsvall.

Work continued on the construction of a 640-metre waterfront promenade at Sillamäe, which accounted for a significant share of the revenue of the specialist engineering subsegment.

Revenue breakdown in the Infrastructure segment	H1 2020	H1 2019	H1 2018	2019
Road construction and maintenance	80%	77%	90%	78%
Other engineering	14%	20%	7%	18%
Specialist engineering (incl. hydraulic)	5%	0%	0%	1%
Environmental engineering	1%	3%	3%	3%

#### Order book

The Group's order book (backlog of contracts signed but not yet performed) stood at 187,018 thousand euros at 30 June 2020, a 4% increase year on year. In the second quarter, we signed new contracts of 47,850 thousand euros (Q2 2019: 65,901 thousand euros). Between the reporting date (30 June 2020) and the date of release of this report, Group companies have secured additional construction contracts in the region of 62,679 thousand euros, the largest of which are the contracts for the construction of a new academic building for the Saaremaa Upper Secondary School and phase III of the Maarjamõisa Medical Campus of the Tartu University Hospital (Tartu Ülikooli Kliinikum).

As at	30 June 2020	30 June 2019	30 June 2018	31 Dec 2019
Order book (EUR '000)	187,018	179,691	131,552	227,545

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 76% and 24% of the Group's total order book, respectively (30 June 2019: 81% and 19%, respectively). Compared to 30 June 2019, the order book of the Buildings segment has decreased by around 3% and the order book of the Infrastructure segment has increased by 33%.

Both the apartment buildings and the public buildings subsegment account for a third of the order book of the Buildings segment: 32% and 30%, respectively. A significant share of the order book of the apartment buildings subsegment is made up of a contract of around 40 million euros for the design and construction of the first two phases of the Kalaranna quarter in Tallinn. The subsegment's order book also includes the work secured but not yet performed in Sweden where the Group continues to build two apartment buildings: one near Uppsala city centre and the other in the Bromma district in Stockholm. A major share of the order book of the public buildings subsegment is made up of contracts signed in 2019 for the construction of the Kohtla-Järve sports and health centre, a storage complex at the defence forces' base at Tapa and Kindluse Kool - a basic school in Järveküla near Tallinn. In 2020, the portfolio has increased by contracts for the extension of the office building of the Estonian Foreign



Intelligence Service in Rahumäe tee in Tallinn and the construction of a family health centre and multi-storey car park for Tartu Kesklinna Perearstikeskus in Tartu and two contracts for the reconstruction of two schools in East Ukraine with the total value of 3.5 million euros. A significant share of the order book of the industrial and warehouse facilities subsegment is made up of contracts for the construction of a dairy complex for E?Piim in Paide and two shed complexes in Finland. The order book of the commercial buildings subsegment has decreased substantially year on year. The largest project in progress is in Tallinn: the construction of a new seven-floor commercial building in Rotermann City.

Contracts secured by the road construction and maintenance subsegment account for 65% of the order book of the Infrastructure segment. The size of the order book is strongly influenced by the contract secured in the second quarter for the construction of the Vão junction on the eastern border of Tallinn. In 2020, we have also signed five contracts of 2-3 million euros each and 12 million euros in total with the National Road Administration. Nordecon Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. Other engineering contracts account for 24% of the order book of the Infrastructure segment. A major share of the order book of the other engineering subsegment is made up of a contract secured in 2019 for the construction of foundations for 73 wind turbines in the Nysäter wind farm in northern Sweden, near Sundsvall.

Based on our order book where around half is made up of contracts that will continue into 2021 and 2022, we expect that in 2020 the Group's revenue will increase compared with 2019. However, the volume of orders placed by private sector customers has dropped significantly. Customers' pressure on general contractors for lowering prices has increased while the input prices offered by subcontractors have not decreased as expected. This has put profit margins under strong pressure. In an environment of stiff competition, we have avoided taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Our preferred policy is to keep fixed costs under control and monitor market developments closely.

## People

### Employees and personnel expenses

In the first half of 2020, the Group (the parent and the subsidiaries) employed, on average, 707 people, including 442 engineers and technical personnel (ETP). Headcount increased by around 4% compared with the same period in 2019. The number of engineers and technical personnel grew, partly due to a change in the Group's structure: Embach Ehitus OÜ became a subsidiary.

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

	H1 2020	H1 2019	H1 2018	2019
ETP	442	405	426	414



Workers	265	273	268	273
Total average	707	678	694	687

The Group's personnel expenses for the first half of 2020 including all taxes, totalled 13,703 thousand euros. The figure for the first half of 2019 was 11,036 thousand euros. Personnel expenses grew by around 24% year on year due to the payment of performance bonuses as well as the fact that Emabch Ehitus OÜ became a subsidiary as described above.

The service fees of the members of the council of Nordecon AS for the first half of 2020 amounted to 93 thousand euros and associated social security charges totalled 31 thousand euros (H1 2019: 94 thousand euros and 31 thousand euros, respectively).

The service fees of the members of the board of Nordecon AS amounted to 266 thousand euros and associated social security charges totalled 88 thousand euros (H1 2019: 278 thousand euros and 93 thousand euros, respectively).

#### Labour productivity and labour cost efficiency

We measure the efficiency of our operating activities using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses incurred:

	H1 2020	H1 2019	H1 2018	2019
Nominal labour productivity (rolling), (EUR '000)	385.4	321.5	327.4	340.6
Change against the comparative period, %	19.9%	-1.8%	10.4%	4.7%
Nominal labour cost efficiency (rolling), (EUR)	9.7	9.3	9.9	9.2
Change against the comparative period, %	3.7%	-6.3%	-2.1%	-5.0%

The Group's nominal labour productivity and nominal labour cost efficiency increased year on year in connection with revenue growth.

Nordecon ([www.nordecon.com](http://www.nordecon.com)) is a group of construction companies whose core business is construction project management and general contracting in the buildings and infrastructures segment. Geographically the Group operates in Estonia, Sweden, Finland and Ukraine. The parent of the Group is Nordecon AS, a company registered and located in Tallinn, Estonia. The consolidated revenue of the Group in 2019 was 234 million euros. Currently Nordecon Group employs close to 710 people. Since 18 May 2006 the company's shares have been quoted in the main list of the NASDAQ Tallinn Stock Exchange.



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