

Company Nordecon AS
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Attachments:

- Nordecon_Interim_report_Q2_2022.pdf (<http://oam.fi.ee/en/download?id=6667>)
- NCN investor presentation Q2_2022.pdf (<http://oam.fi.ee/en/download?id=6668>)
- Nordecon_Aruanne_2Q_2022.pdf (<http://oam.fi.ee/en/download?id=6669>)
- NCN investor presentation Q2_2022.pdf (<http://oam.fi.ee/en/download?id=6670>)

Currency

Title 2022 II quarter and 6 months consolidated interim report (unaudited)

Despite the continued difficult external environment, the second quarter and first half of 2022 were overall profitable for the group. The increase in sales revenue also continued, which is largely based on the fulfillment of construction contracts concluded in previous periods.

At the same time, the ongoing uncertainty of material supplies and the rapid increase in input prices have created a situation where planning construction works is very difficult both in terms of time and cost. This, together with the general difficult economic environment, forces both the private and public sector to postpone investments. It is the decrease in the volume of public sector investments, especially in road and infrastructure construction, that in the short and long term has a direct impact on the group's sales revenue, profitability, and the volume of the order book.

The group's sales revenue for the first half of 2022 was 149,256 thousand euros. Compared to the same period last year, sales revenue increased by approximately 27%. The increase in sales revenue is based on the growth of the Buildings segment, the sales revenue of the Infrastructure segment has decreased compared to the same period last year.

The group's gross profitability was 2.1% in the first half of 2022 and 2.5% in the second quarter. The profit of both the first half of the year and the second quarter was earned in the Buildings segment. While the profitability of the Buildings segment has, despite the increase in input prices and material supply problems, improved compared to the same period last year, it is extremely difficult to achieve the same in the Infrastructure segment. The main customer, the Transport Administration, has cancelled several already announced tenders and the volume of this year's investments has been significantly reduced. This significantly affects the result of the segment with high fixed costs.

As of 30 June 2022, the volume of the group's order book was 220,687 thousand euros, which has decreased by 18% compared to the same period last year.



Condensed consolidated interim statement of financial position

EUR '000

30 June 2022 31 December 2021

ASSETS

Current assets

Cash and cash equivalents	4,967	9,031
Trade and other receivables	60,574	48,091
Prepayments	8,181	4,947
Inventories	27,560	25,637
Total current assets	101,282	87,706

Non-current assets

Other investments	76	76
Trade and other receivables	8,623	9,206
Investment property	8,233	5,599
Property, plant and equipment	17,774	17,433
Intangible assets	15,081	15,051
Total non-current assets	49,787	47,365
TOTAL ASSETS	151,069	135,071

LIABILITIES

Current liabilities

Borrowings	17,353	16,289
Trade payables	68,810	57,324
Other payables	7,944	7,459
Deferred income	15,398	11,539



Provisions	1,395	707
Total current liabilities	110,900	93,318
Non-current liabilities		
Borrowings	6,824	7,405
Trade payables	3,987	4,178
Provisions	1,856	2,044
Total non-current liabilities	12,667	13,627
TOTAL LIABILITIES	123,567	106,945

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	1,689	1,948
Retained earnings	5,413	6,341
Total equity attributable to owners of the parent	24,010	25,197
Non-controlling interests	3,492	2,929
TOTAL EQUITY	27,502	28,126
TOTAL LIABILITIES AND EQUITY	151,069	135,071

Condensed consolidated interim statement of comprehensive income

EUR'000	H1 2022	Q2 2022	H1 2021	Q2 2021	2021
Revenue	149,256	80,803	117,966	68,979	288,534
Cost of sales	(146,075)	(78,769)	(116,660)	(67,580)	(284,513)



Gross profit	3,181	2,034	1,306	1,399	4,021
Marketing and distribution expenses	(186)	(115)	(214)	(108)	(559)
Administrative expenses	(3,118)	(1,513)	(2,833)	(1,362)	(6,053)
Other operating income	1,856	103	127	92	519
Other operating expenses	(276)	(2)	(29)	(6)	(2,264)
Operating profit (loss)	1,457	507	(1,643)	15	(4,336)
Finance income	146	79	537	132	958
Finance costs	(1,377)	(43)	(665)	(376)	(1,320)
Net finance income (costs)	(1,231)	36	(128)	(244)	(362)
Profit (loss) before income tax	226	543	(1,771)	(229)	(4,698)
Income tax expense	(200)	(200)	(619)	(250)	(808)
Profit (loss) for the period	26	343	(2,390)	(479)	(5,506)
Other comprehensive income (expense): Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	(259)	(413)	406	587	(475)
Total other comprehensive income (expense)	(259)	(413)	406	587	(475)
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(233)	(70)	(1,984)	108	(5,981)



Profit (loss) attributable to:

- Owners of the parent	(928)	(10)	(2,148)	(584)	(6,310)
- Non-controlling interests	954	353	(242)	105	804
Profit (loss) for the period	26	343	(2,390)	(479)	(5,506)

Comprehensive income (expense) attributable to:

- Owners of the parent	(1,187)	(423)	(1,742)	3	(6,785)
- Non-controlling interests	954	353	(242)	105	804
Comprehensive income (expense) for the period	(233)	(70)	(1,984)	108	(5,981)

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	(0.03)	(0.00)	(0.07)	(0.02)	(0.20)
Diluted earnings per share (EUR)	(0.03)	(0.00)	(0.07)	(0.02)	(0.20)

Condensed consolidated interim statement of cash flows

EUR'000	H1 2022	H1 2021
Cash flows from operating activities		
Cash receipts from customers	177,608	142,892
Cash paid to suppliers	(162,328)	(124,977)
VAT paid	(4,447)	(4,387)
Cash paid to and for employees	(12,476)	(13,075)
Income tax paid	(312)	(616)
Net cash used in operating activities	(1,955)	(163)



Cash flows from investing activities

Paid on acquisition of property, plant and equipment	(97)	(104)
Proceeds from sale of property, plant and equipment	322	158
Paid on acquisition of intangible assets	0	(16)
Loans provided	(9)	(25)
Repayments of loans provided	11	60
Dividends received	6	0
Interest received	6	4
Net cash from investing activities	239	77

Cash flows from financing activities

Proceeds from loans received	1,870	1,418
Repayments of loans received	(1,605)	(1,243)
Lease payments made	(1,790)	(1,574)
Interest paid	(428)	(545)
Dividends paid	(391)	(2,814)
Other payments	(4)	0
Net cash used in financing activities	(2,348)	(4,758)

Net cash flow	(4,064)	(4,844)
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Cash and cash equivalents at beginning of period	9,031	12,576
Effect of movements in foreign exchange rates	0	0
Decrease in cash and cash equivalents	(4,064)	(4,844)



Cash and cash equivalents at end of period

4,967

7,732

Financial review

Financial performance

Nordecon ended the first half of 2022 with a gross profit of EUR3,181 thousand (H1 2021: EUR1,306 thousand) and gross margins that were higher than a year earlier: 2.1% for the first half-year (H1 2021: 1.1%) and 2.5% for the second quarter (Q2 2021: 2.0%). The group's gross profit for both the first half and second quarter of 2022 was earned in the Buildings segment, which delivered gross margins of 3.8% for the half-year and 3.4% for the second quarter (H1 2021: 2.5% and Q2 2021: 2.8%). The Infrastructure segment's performance was weaker than in the same period last year, with negative gross margins for both the first half-year and second quarter: (6.4)% and (0.3)%, respectively (H1 2021: (0.5)% and Q2 2021: 3.2%). The Buildings segment has been able to increase its profitability compared with a year earlier despite growth in input prices and disruptions in the supply of materials. For the Infrastructure segment, improvement of profitability is much more difficult. Its largest customer, the Transport Administration, has cancelled several announced procurements and made significant cutbacks in its investments in 2022. This has had a significant effect on the performance of our Infrastructure segment whose fixed costs are high.

The group's administrative expenses for the first half of 2022 amounted to EUR3,118 thousand. Compared with the same period last year, administrative expenses grew by around 10% (H1 2021: EUR2,833 thousand) due to general growth in the cost of goods and services. The ratio of administrative expenses to revenue (12 months rolling) declined year on year, decreasing to 2.0% (H1 2021: 2.2%). The group ended the first half of 2022 with an operating profit of EUR1,457 thousand (H1 2021: an operating loss of EUR1,643 thousand). EBITDA for the period amounted to EUR3,158 thousand (H1 2021: EUR92 thousand). According to the restructuring plan approved by the creditors of Swencn AB, the claims of the entity's creditors are to be settled to the extent of 25%. As a result, the group recognised other income of EUR1,560 thousand in the reporting period. The group's finance costs were significantly affected by the write-down of a loan provided to the group's Ukrainian associate V.I. Center TOV by EUR825 thousand. Due to the lack of more recent reliable data, the fair value of the loan was measured using the inputs of the valuation reports issued at the end of 2021 by an internationally recognised independent appraiser. The asset had to be written down due to the time factor, i.e. the deferral of the completion of the development projects.

The group earned a net profit of EUR26 thousand (H1 2021: a net loss of EUR2,390 thousand). The net loss attributable to owners of the parent, Nordecon AS, was EUR928 thousand (H1 2021: a net loss of EUR2,148 thousand).

Cash flows

Operating activities produced a net cash outflow of EUR1,955 thousand the first



half of 2022 (H1 2021: an outflow of EUR163 thousand). Operating cash flow is increasingly affected by the need to make prepayments to materials suppliers, which have grown due to spikes in materials prices and continuing supply disruptions, in a situation where the contracts signed with both public and private sector customers do not require them to make advance payments. 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 EUR239 thousand (H1 2021: an inflow of EUR77 thousand). The largest items were payments made to acquire property, plant and equipment of EUR97 thousand (H1 2021: EUR120 thousand) and proceeds from the sale of property, plant and equipment of EUR322 thousand (H1 2021: EUR158 thousand). Financing activities generated a net cash outflow of EUR2,348 thousand (H1 2021: an outflow of EUR4,758 thousand). The largest items were cash flows related to loans and leases. Proceeds from loans received totalled EUR1,870 thousand, consisting of the use of the overdraft facility and development loans (H1 2021: EUR1,418 thousand). Repayments of loans received totalled EUR1,605 thousand, consisting of regular repayments of long-term investment and development loans (H1 2021: EUR1,243 thousand). Lease payments totalled EUR1,790 thousand (H1 2021: EUR1,574 thousand). Dividends paid in the first half of 2022 amounted to EUR391 thousand (H1 2021: EUR2,814 thousand). The group's cash and cash equivalents at 30 June 2022 totalled EUR4,967 thousand (30 June 2021: EUR7,732 thousand).

Key financial figures and ratios

Figure/ratio	H1 2022	H1 2021	H1 2020	2021
Revenue (EUR'000)	149,256	117,966	136,798	288,534
Revenue change	27%	(14)%	36%	(2.5)%
Net profit (loss) (EUR'000)	26	(2,390)	1,419	(5,506)
Net profit (loss) attributable to owners of the parent (EUR'000)	(928)	(2,148)	(156)	(6,310)
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (EUR)	(0.03)	(0.07)	0.00	(0.20)
Administrative expenses to revenue	2.1%	2.4%	2.8%	2.1%
Administrative expenses to revenue (rolling)	2.0%	2.2%	2.8%	2.1%



EBITDA (EUR'000)	3,158	92	3,694	(797)
EBITDA margin	2.1%	0.1%	2.7%	(0.3)%
Gross margin	2.1%	1.1%	4.4%	1.4%
Operating margin	1.0%	(1.4)%	1.5%	(1.5)%
Operating margin excluding gain on asset sales	0.9%	(1.4)%	1.5%	(1.6)%
Net margin	0.0%	(2.0)%	1.0%	(1.9)%
Return on invested capital	1.2%	(2.1)%	3.3%	(6.5)%
Return on equity	0.1%	(6.9)%	4.1%	(16.8)%
Equity ratio	18.2%	22.6%	25.8%	20.8%
Return on assets	0.0%	(1.7)%	1.1%	(4.1)%
Gearing	37.2%	31.4%	26.8%	28.3%
Current ratio	0.91	0.97	1.00	0.94

30 June 2022 30 June 2021 30 June 2020 31 Dec 2021

Order book (EUR'000)	220,687	269,448	187,018	266,856
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Performance by geographical market

The group's revenues from outside Estonia have decreased. In the first half of 2022, foreign markets accounted for around 3% of total revenue. Due to Russia's military invasion of Ukraine, full-scale operations of the group's Ukrainian subsidiary Eurocon Ukraine TOV have been temporarily suspended: in the second quarter the subsidiary continued work on one building project in Kiev. Ukrainian revenues for the period amounted to EUR578 thousand. The group did not generate any revenue and had no ongoing construction contracts in the Swedish market. The group also operates on a project basis in Latvia where it was building a wind farm in the reporting period.

	H1 2022	H1 2021	H1 2020	2021
Estonia	97%	96%	88%	94%
Latvia	2%	0%	0%	1%



Finland	1%	3%	5%	3%
Ukraine	0%	1%	1%	2%
Sweden	0%	0%	6%	0%

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market. However, conditions in some of our chosen foreign markets are also volatile and noticeably affect our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic goals.

Performance by business line

Segment revenues

The group's revenue for the first half of 2022 was EUR149,256 thousand, roughly 27% larger than a year earlier when revenue amounted to EUR117,966 thousand. Revenue growth was attributable to the revenue of the Buildings segment, which grew by 40%. The revenue of the Infrastructure segment decreased by 21%. The decline in revenue generated by the Infrastructure segment is attributable to the cutback in investments made by the largest customer, the Transport Administration, due to the spike in input prices triggered by the impacts of the war in Ukraine.

The low volumes of infrastructure construction that are affecting the entire construction market also influence the group's revenue structure. In the first half of 2022, the Buildings and the Infrastructure segment generated revenue of EUR128,430 thousand and EUR20,703 thousand, respectively. The corresponding figures for the first half of 2021 were EUR91,557 thousand and EUR26,217 thousand.

Revenue by operating segment	H1 2022	H1 2021	H1 2020	2021
Buildings	84%	78%	81%	75%
Infrastructure	16%	22%	19%	25%

Subsegment revenues

In the Buildings segment, the revenues of all subsegments grew compared with the same period last year. The revenue contributions of the apartment, the commercial and the public buildings subsegments were practically equal while the revenue contribution of the industrial and warehouse facilities subsegment was somewhat smaller.

The largest projects under construction in the commercial buildings subsegment were the LEED Gold compliant Alma Tomingas office building in Ülemiste City in Tallinn and an IKEA store in Rae rural municipality near Tallinn.

The revenue of the public buildings subsegment has increased significantly year on year. The largest projects in progress during the period were construction



works in the Medical Campus of the Tartu University Hospital in Tartu, the construction of the main building of the Estonian Internal Security Service in Tallinn and the design and construction of storage facilities and utility networks for the Centre for Defence Investment in Harju county.

The apartment buildings subsegment earns most of its revenue from the construction of apartment buildings for third parties. During the period under review, the largest of them were the design and construction of the first two phases of the Kalaranna quarter in Tallinn and the design and the construction of the Tiskreoja and Luccaranna housing estates on the western border of Tallinn.

The volume of our own development operations (reported in the apartment buildings subsegment), however, continues to grow as well. We have development projects in both Tallinn and Tartu. During the period, work continued on the construction of the Mõisavahe Kodu housing estate in Tartu (<https://moisavahe.ee>) and the development of plots for Kivimäe Süda, a new housing estate in the Nõmme district in Tallinn, where we have started preparations for phase 2 - the construction of an apartment building (<https://www.kivimaesuda.ee/en>). We also started the design of the Seiler Quarter housing estate in Pärnu (<https://seileri.ee>). The period's revenue from own development projects amounted to EUR6,335 thousand (H1 2021: EUR0). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The revenue contribution of the industrial and warehouse facilities subsegment has grown compared with the first half of 2021. The subsegment's largest ongoing project is the construction of a factory complex for the dairy company E-Piim in Paide but there are also numerous smaller projects such as the construction of a production building at Kurna tee in Harju county.

Buildings segment	H1 2022	H1 2021	H1 2020	2021
Apartment buildings	30%	30%	27%	29%
Public buildings	28%	30%	34%	28%
Commercial buildings	26%	31%	30%	29%
Industrial and warehouse facilities	16%	9%	9%	14%

In the Infrastructure segment, the largest revenue contributor is still road construction and maintenance although its revenue and proportionate contribution have decreased year on year. During the period, the subsegment's revenue resulted from the performance of contracts secured in 2021, the largest of which were the construction of 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road and the design and construction of the outdoor space around Terminal D in Old City Harbour in Tallinn, as well as smaller contracts of EUR2-3 million each signed in 2022. We also continued to deliver road maintenance services in Järva county.

The group has won several contracts for the construction of small harbours. During the period, work was done on the expansion of quays in Roomassaare



harbour and the construction of the Kalana yacht harbour, which accounted for a major share of the specialist engineering revenue. The revenue of the other engineering subsegment resulted mostly from the construction of the Vanessa wind farm in Latvia.

Infrastructure segment	H1 2022	H1 2021	H1 2020	2021
Road construction and maintenance	81%	86%	80%	87%
Other engineering	14%	4%	14%	6%
Specialist engineering	5%	5%	5%	4%
Environmental engineering	0%	5%	1%	3%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR220,687 thousand at 30 June 2022, reflecting an 18% decrease year on year. In the first half and second quarter of 2022, we signed new contracts of EUR89,661 thousand and EUR26,494 thousand, respectively (H1 2021: EUR174,820 thousand and Q2 2021: EUR69,938 thousand). Russia's military invasion of Ukraine and the consequent sanctions on Russia and Belarus have disrupted the supply of building materials, particularly metal, wood and oil-based products, which is also affecting the prices of relevant materials. The surge in materials prices has caused a sharp increase in the costs of development projects as well as the postponement of new projects. As mentioned in the previous chapters, the volume of investments made by the Transport Administration has decreased substantially. This has affected the group's order book through a decline in the order book of the Infrastructure segment.

	30 June 2022	30 June 2021	30 June 2020	31 Dec 2021
Order book (EUR'000)	220,687	269,448	187,018	266,856

The proportions of the two main operating segments in the group's order book have not changed substantially: the Buildings segment still dominates, accounting for 85%, while the Infrastructure accounts for 15% of the total order book (30 June 2021: Buildings: 79% and Infrastructure: 21%). Compared with 30 June 2021, the order books of the Buildings and the Infrastructure segment have decreased by 9% and 21%, respectively.

The largest contracts secured in the second quarter were:

- * the design and construction of storage facilities and associated utility networks for the Centre for Defence Investment in Harju county, Estonia, with an approximate cost of EUR14,600 thousand;
- * the design and construction of the Männiku commercial building in Kandiküla in Tartu, Estonia, with an approximate cost of EUR5,900 thousand.
- * the construction of foundations for turbines in a wind farm being built



near the city of Telshiai, Lithuania, with an approximate cost of EUR3,000 thousand.

Based on the size of the group's order book, including the share of work to be performed in 2023, management expects that in 2022 the group's revenue will grow compared with 2021. The uptrend in the prices of materials, energy carriers and labour costs will continue to increase input prices and pressure on profit margins. 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. To mitigate input price risk, we have been signing cost-plus contracts with private sector customers (contracts with an open book arrangement under which we can invoice the customer based on the actual costs incurred plus an agreed margin). Our focus remains on cost control as well as pre-construction and design activities, where we can harness our professional competitive advantages.

People

Employees and personnel expenses

The group's average number of employees in the first half of 2022 was 671, including 437 engineers and technical personnel (ETP). Headcount decreased by around 1% year on year.

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

	H1 2022	H1 2021	H1 2020	2021
ETP	437	426	442	434
Workers	234	254	265	251
Total average	671	680	707	685

The group's personnel expenses for the first half of 2022, including all taxes, totalled EUR12,936 thousand compared with EUR12,020 thousand in the same period last year. Personnel expense have increased by around 8% in connection with growth in wages and salaries.

The service fees of the members of the council of Nordecon AS for the first half of 2022 amounted to EUR75 thousand and associated social security charges totalled EUR25 thousand (H1 2021: EUR75 thousand and EUR25 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to EUR202 thousand and associated social security charges totalled EUR67 thousand (H1 2021: EUR182 thousand and EUR60 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 personnel expenses incurred:

	H1 2022	H1 2021	H1 2020	2021

Nominal labour productivity (rolling), (EUR '000)	470.0	403.3	385.7	420.8
Change against the comparative period, %	16.5%	4.6%	20.0%	(0.5)%
Nominal labour cost efficiency (rolling), (EUR)	12.8	10.9	9.7	11.5
Change against the comparative period, %	17.6%	12.7%	3.7%	5.5%

The group's nominal labour productivity and nominal labour cost efficiency improved year on year, mainly due to revenue growth.

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