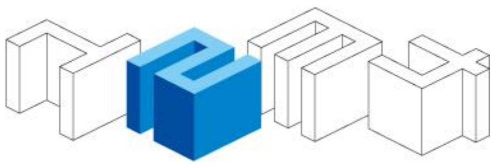
NORDECON

Financial report for the second quarter and first half of 2023

(unaudited)



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Business name	Nordecon AS
Registration number	10099962
Address	Toompuiestee 35, 10149 Tallinn, Estonia
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2023 – 31 December 2023
Reporting period	1 January 2023 – 30 June 2023
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Andre Luman, Vello Kahro, Sandor Liive
Board	Gerd Müller (chairman of the board), Priit Luman, Tarmo Pohlak, Maret Tambek
Auditor	KPMG Baltics OÜ

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Nordecon group at a glance

Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) began operating as a construction company in 1989. Since then, we have grown to become one of the leading construction groups in Estonia and a strong player in all segments of the construction market.

For years, our business strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a reasonable balance between building and infrastructure construction. Our core business is supported by road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage risks.

Nordecon's specialists offer high-quality integrated solutions in the construction of commercial, residential, industrial and public buildings as well as infrastructure – roads, utility networks and port facilities. In addition, we are involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

Besides Estonia, group entities operate in Finland, Sweden and Ukraine.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry. Nordecon AS has developed and implemented a quality management system that complies with ISO 9001, an environmental management system that complies with ISO 14001 and an occupational safety management system that complies with ISO 45001. Compliance with the standards has been certified by DNV.

Nordecon AS's shares have been listed on the Nasdaq Tallinn Stock Exchange since 18 May 2006.

VISION

To be the preferred partner in the construction industry for customers, subcontractors and employees.

MISSION

To offer customers sustainable building and infrastructure construction solutions that meet their needs and fit their budget and thus help them maintain and increase the value of their assets.

SHARED VALUES

Professionalism

As industry professionals, we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead and successfully combine their extensive industry experience with the opportunities provided by innovation.

Reliability

We are reliable partners – we always keep our promises. Together we can overcome any construction challenge and achieve the best possible results. We act openly, transparently and consistent with the best practices of the construction industry.

Teamwork

We value balanced teamwork and create the best possible environment for sharing knowledge and experience. We notice and recognise each employee's contribution and initiative.

Sustainability

We uphold responsibility and sustainability in the construction sector and contribute to the achievement of the sustainable development goals supported by society both through our own activities and in cooperation with other market participants.

Directors’ report

Strategic agenda for 2023–2027

Business lines and markets

- The group will grow, mostly organically, with a focus on efficient use of resources.
- In Estonia, we will operate in the building and infrastructure construction as well as housing development segments.
- In foreign markets (Finland, Sweden and Ukraine), we will compete as a general contractor and a provider of concrete works.

Activities for implementing the strategy

- We will provide our people with a modern and inspiring work environment and a motivation system that fosters collaboration and initiative.
- We will improve our profitability by planning and managing our design and construction operations more precisely.
- We will streamline our work and decision-making processes by implementing modern digital solutions.
- We will maintain the order books of our different operating segments in balance.
- We will set our sustainable development goals and adopt an action plan to achieve them.

Financial targets

- Revenue will grow by at least 5% per year.
- Operating margin for the year will be consistently above 3%.
- Operating profit per employee will increase to at least €10 thousand per year.
- We will deliver a strong dividend yield for Nordecon’s shareholders.

Outlooks of the group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market:

- The Estonian construction market has seen rapid change and continues to be strongly influenced by public spending. According to Statistics Estonia, the construction price index increased by 17.8% in 2022 and continued to rise in the first quarter of 2023, when it gained 1.5% on the fourth quarter of last year. The rise came to a halt in the second quarter, when the construction price index dropped by 0.5% quarter-on-quarter. This was due to a decline in the prices of building materials, partly as a result of lower construction volumes. Labour costs, on the other hand, continue to grow. The surge in input prices will reduce public investment in 2023 because planned construction projects can no longer be funded with previously allocated resources. While the Centre for Defence Investment has increased investment due to the current security situation, the Transport Administration has made significant cutbacks in its investment plans. This is putting strong pressure on companies operating in the infrastructure and asphalt concrete production segments, where market supply is already significantly outstripping demand. Procurements for the Rail Baltica project are expected to increase, which should partly offset the sharp decline in the road construction and rehabilitation work procured by the Transport Administration. Against the backdrop of a general economic downturn, it is expected that the construction market will contract in 2023.
- Decelerating economic activity and declining construction volumes have intensified competition in both building and infrastructure construction. A major share of the price increase is attributable to the sanctions imposed on Russia and Belarus, which have driven up materials prices, but the effects of growing labour costs, an acute shortage of labour, and elevated interest rates are growing as well. It is clear that the price increase is not temporary. Soaring prices have weakened demand and some investments which have a business plan that cannot be realised need to be deferred or significantly adjusted. It is difficult to forecast how the situation will affect the demand for construction services in the long term, but in the short term demand will decline.
- There is often a striking contrast between the stringent terms of public construction contracts, which impose numerous obligations, strict sanctions, different financial guarantee commitments, etc., and the modest eligibility criteria. While lenient qualification requirements and the precondition of making a low bid have made it relatively easy for an increasing number of builders to win a contract, they have also heightened the financial, completion delay and quality risks taken by customers during the contract performance and the subsequent warranty period.
- The shortage of skilled and qualified labour (incl. project and site managers) has not decreased and the sector continues to need additional competent professionals, including foreign labour whose contribution has supported recent years' market growth.

Ukraine

In Ukraine, we are mainly involved in general contracting and project management in the segment of building construction. In addition, the group has investments in two real estate projects located in Ukraine. Due to the military conflict between Russia and Ukraine as well as uncertainty about the time when it will end, it is not possible to estimate how the situation in the Ukrainian economy and construction market will evolve in 2023.

Finland

In Finland, we have been offering mainly subcontracting services in the concrete work segment. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. In recent years, we have also secured some smaller contracts as a general contractor. Our policy is to maintain a rational approach and avoid taking excessive risks.

Sweden

In the Swedish market, we offer mainly the construction of residential and non-residential buildings and operate primarily in the central part of the country. Rapid inflation and the raising of interest rates weakened demand in the Swedish construction market in 2022. Construction volumes are expected to decrease in 2023, particularly in the segment of housing construction. In a challenging market environment, we will focus on finding new opportunities while critically assessing potential risks.

Description of the main risks

Business risks

The main factors which affect the group's business volumes and profit margins are competition in the construction market and changes in the demand for construction services. The demand for construction services continues to be strongly influenced by the volume of public investment, particularly in the infrastructure segment.

Bid prices are under strong competitive pressure in both the infrastructure and the building construction segment, and bidders increasingly include not only rival general contractors but also former subcontractors. This is mainly attributable to the central and local governments' policy to keep the eligibility requirements for public contracts low. As a result, quality and timely completion are sometimes sacrificed to the lowest price. We acknowledge the risks involved in performing contracts signed in an environment of stiff competition and the current economic uncertainty. In setting prices in such an environment, we strive to ensure a reasonable balance between contract performance risks and tight cost control.

Our action plan foresees flexible resource allocation aimed at finding more profitable contracts and performing them effectively. According to our business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in only one narrow segment.

The group's business is influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction, where a lot of work is done outdoors (road construction, earthworks, etc.). Our strategy is to counteract the seasonality of infrastructure operations with building construction, which is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance, although the current market situation, particularly the decline in public investment, is making it rather difficult to achieve. Where possible, our entities implement technical solutions that help them work efficiently in changing conditions. The group's investments in digital solutions, which allow planning and managing construction processes more precisely, have grown substantially. A key challenge for the construction sector is low productivity, which is attributable to lack of time in the preparatory and planning phases and outdated process management methods.

Operational risks

To manage their daily construction risks, group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific insurance contracts are used. In addition, subcontractors are generally required to secure the performance of their obligations with a bank guarantee provided to a group company or the group retains part of the amount due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, group companies create warranty provisions based on their historical experience. The group's warranty provisions (incl. current and non-current) at 30 June 2023 totalled €1,979 thousand (30 June 2022: €1,124 thousand).

In addition to managing the risks directly related to construction operations, we pay a lot of attention to mitigating the risks inherent in pre-construction activities. In particular, this applies to the bidding process, i.e. compliance with the procurement terms and budgeting. The errors made in the planning stage are usually irreversible and, in a situation where the price is contractually fixed, will cause a direct financial loss.

Financial risks

Credit risk

The group did not have any credit losses during the reporting period. In the same period last year, credit losses amounted to €182 thousand. The overall credit risk exposure of the portfolio of receivables is low because the solvency of prospective customers is evaluated, the share of public sector customers is large and customers' payment behaviour is continuously monitored. The main indicator of the realisation of credit risk is a settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

Liquidity risk

The group remains exposed to higher than usual liquidity risk. At the reporting date, the group's current ratio was 0.89 (30 June 2022: 0.91). The key factors that influence the current ratio are the classification of the group's loans to its Ukrainian associate as non-current and the banks' general policy not to refinance interest-bearing liabilities (particularly overdrafts) for a period exceeding 12 months.

Due to the military conflict between Russia and Ukraine, we believe that the group's Ukrainian investment properties cannot be realised in the short term. Accordingly, the receivables related to the loans provided to the Ukrainian associate of €8,027 thousand were classified as non-current items at the reporting date.

For better cash flow management, we use overdraft facilities by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. The group's short-term borrowings at 30 June 2023 totalled €16,701 thousand (30 June 2022: €17,353 thousand).

The group's cash and cash equivalents as at the reporting date amounted to €8,369 thousand (30 June 2022: €4,967 thousand).

Interest rate risk

The group's interest-bearing liabilities to banks have both fixed and floating interest rates. Lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. During the period, interest-bearing liabilities decreased compared with the same period last year. At 30 June 2023, the group had interest-bearing liabilities of €22,468 thousand (30 June 2022: €24,177 thousand). Due to the overall rise in interest rates, interest expense grew compared with the first half of 2022, rising to €490 thousand (H1 2022: €406 thousand).

The main source of interest rate risk is a rise in the base rates of floating interest rates (EURIBOR or the lender's base rate). In the light of the group's relatively heavy loan burden, this would significantly increase interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have floating interest rates.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in the euro (€), the Ukrainian hryvnia (UAH) and the Swedish krona (SEK).

Due to Russia's military invasion of Ukraine in February 2022 and Ukraine's previous political and economic instability, the exchange rate of the hryvnia has been volatile. In the first half of 2023, the exchange rate of the hryvnia weakened against the euro by approximately 2.6%. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €161 thousand during the period (H1 2022: a gain of €28 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss within finance income and finance costs, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

Our Ukrainian and non-Ukrainian entities' reciprocal receivables and liabilities that are related to the construction business and denominated in hryvnias do not give rise to exchange gains or losses. The loans provided to the Ukrainian associate in euros do not give rise to exchange differences to be reported in the group's accounts either.

The Swedish krona weakened against the euro in the first half of 2023 by around 5.8%. Due to the movement in the foreign exchange rate, the translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to a foreign exchange loss of €80 thousand (H1 2022: a loss of €30 thousand). The exchange loss was recognised in profit or loss within finance costs.

The group has not acquired derivatives to hedge currency risk.

Employee and work environment risks

Finding permanent skilled and qualified labour is a challenge for the entire construction sector and one of the main factors that influences business performance. To strengthen Nordecon's reputation as an employer and make sure that we will have employees in the future, we collaborate with educational institutions. Continuous employee development is essential and one of our acknowledged priorities. We also rely on our subcontractors' ability to find the staff with the required skills and qualifications.

We strive to minimise the health and safety risks of people working on our construction sites, including our own teams and those of our subcontractors, by applying the measures required by law as well as our own management systems. Subcontractors are responsible for ensuring the safety of their operations and employees while our role is to build relationships and create conditions that enable and foster compliance with safety regulations.

Environmental risks

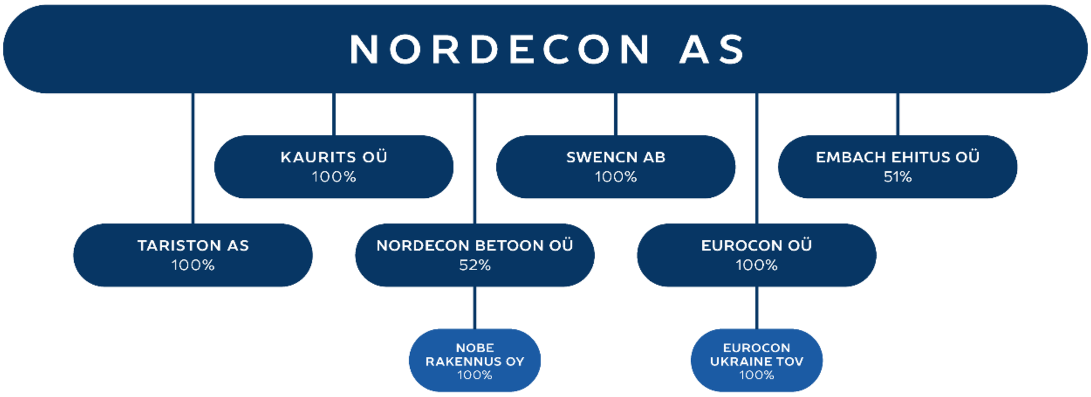
Construction activities have a direct impact on wildlife, soil and the physical environment. Therefore, in conducting our operations we strive to protect the surrounding environment and nature as much as possible. The group's assets and operations which have the strongest impact on the environment and thus involve the highest environmental risks are asphalt plants, quarries used for the extraction of construction materials and road construction operations. The main environmental protection measures on construction sites include efficient use of materials and proper waste management. Excessive waste, leakage, spillage, pollution, destruction of wildlife and other damage to the environment is prevented by complying with legal and regulatory requirements. All of the group's construction entities have implemented environmental management standard ISO 14001.

Corruption and ethical risks

Nordecon is one of the leading construction companies in the Estonian market. Therefore, it is important for us to be aware of the risks involved in breaching honest and ethical business practices. We have put in place internal procedures and policies, observe the rules of the Tallinn Stock Exchange and work with external and internal auditors as well as supervisory agencies. We make every effort to ensure that our entities' management quality, organisational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour. Transparent decisions and open communication are underpinned by effective internal cooperation and external communication. Openness is supported by the continuously increasing implementation of IT solutions.

Group structure

The group's structure at 30 June 2023, including interests in subsidiaries and associates*



* The structure does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE, OÜ Eston Ehitus, Infra Ehitus OÜ, Kalda Kodu OÜ, Kastani Kinnisvara OÜ, EE Ressursid OÜ, SweNCN OÜ, Nordecon Statyba UAB, Eurocon Bud TOV, Technopolis-2 TOV and the associate V.I. Center TOV, which currently do not engage in any significant business activities. The first five were established to protect business names. Nor does the structure include investments in entities in which the group's interest is less than 20%.

Significant changes in group structure after the reporting period

Merger of Kaurits OÜ with Tariston AS

At the beginning of April 2023, Nordecon AS decided to merge two wholly-held subsidiaries, Tariston AS and Kaurits OÜ. The purpose of merging two successful infrastructure construction companies with a good long-term track record was to complete the group's strategic plan of consolidating all infrastructure construction resources, competencies and operations into a single entity. The merger was finalised on 7 July 2023.

The group’s operations in Estonia and foreign markets

The group’s operations in Estonia

There were no changes in our Estonian operations during the period under review. The group was involved in building and infrastructure construction, providing services in practically all market subsegments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the group’s larger subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Nordecon Betoon OÜ (brand name NOBE), Embach Ehitus OÜ and Tariston AS.

As regards our other main business lines, we continued to provide concrete services (Nordecon Betoon OÜ), lease out heavy construction machinery and equipment (Kaurits OÜ) and render regional road maintenance services (Tariston AS).

We did not enter any new operating segments in Estonia.

The group’s operations in foreign markets

Ukraine

In connection with Russia’s military invasion of Ukraine on 24 February 2022, the operations of our Ukrainian subsidiary Eurocon Ukraine TOV have decreased substantially compared with the period before the war. The activity of Eurocon Ukraine TOV does not have a significant impact on the group’s revenue, profit and assets. The group has interests in two real estate projects in Ukraine but the commencement of development activities has been postponed due to the war. The properties have not been damaged in the military conflict and the group has control of the plots.

Finland

There were no changes in our Finnish operations during the period under review. The group’s subsidiary Nordecon Betoon OÜ and its Finnish subsidiary NOBE Rakennus OY continued to provide subcontracting services in the concrete work segment in Finland. In recent years, they have also provided general contractor services under some smaller contracts.

Sweden

There were no changes in our Swedish operations during the period under review. Swencn AB did not have any construction projects in progress at 30 June 2023 but the company is seeking new opportunities to continue its business in the Swedish market.

Performance by geographical market

The revenue contribution of foreign markets has remained more or less stable compared with the same period last year. In the first half of 2023, revenue earned outside Estonia, i.e. in Finland and Ukraine, accounted for 2% of the group's total revenue. Despite the war, Nordecon's construction volumes in Ukraine have increased year on year. We have secured a number of small-scale projects and in June we completed and delivered on time a modular kindergarten with a bomb shelter in the city of Ovruch. Finnish revenues, which include mainly subcontracting revenue from the provision of concrete works, have decreased. Nordecon did not generate any revenue and had no ongoing construction contracts in the Swedish market. Nor did the group generate any revenue in Latvia and Lithuania, where we operate on a project basis.

	H1 2023	H1 2022	H1 2021	2022
Estonia	98%	97%	96%	96%
Finland	1%	1%	3%	2%
Ukraine	1%	0%	1%	0%
Latvia	0%	2%	0%	1%
Lithuania	0%	0%	0%	1%

Performance by business line

Segment revenues

Our targets include maintaining the revenues of our two main operating segments (Buildings and Infrastructure) in balance, if this is permitted by market conditions, because this helps diversify risks and provides better opportunities to continue construction operations in more challenging market conditions where the volumes of one subsegment may decline sharply while the volumes of another may begin growing more rapidly.

The group's revenue for the first half of 2023 was €123,819 thousand, roughly 17% less than in the same period last year, when the figure was €149,256 thousand. The Buildings segment generated revenue of €103,970 thousand and the Infrastructure segment revenue of €19,822 thousand. The corresponding figures for the same period in 2022 were €128,430 thousand and €20,703 thousand (see note 8). Revenue declined by 19% in the Buildings segment and 4% in the Infrastructure segment. The decrease in both segments was expected and is attributable to market contraction. Although the group was successful in winning new contracts in the first half of 2023, these did not yet affect revenue for the period. The steep fall in the revenue of the Infrastructure segment to its practically lowest-ever level is directly related to cutbacks in the investments of the largest customer, the Transport Administration. This is counterbalanced to some extent by the group's success in securing renewable energy projects: the construction of wind farms accounts for an increasing share of the revenue of the Infrastructure segment.

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

* In the directors' report, projects have been allocated to operating segments based on their nature (i.e. building or infrastructure construction). In the segment reporting presented in the consolidated financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the consolidated financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In the directors' report, the revenues of such a subsidiary are presented based on their nature. The differences between the two reports are not significant because group entities mostly specialise in specific areas, except for the subsidiary Nordecon Betoon OÜ, which is involved in both building and infrastructure construction. The figures for the parent are allocated in both parts of the report based on the nature of the work.

Subsegment revenues

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

The period's largest projects in the public buildings subsegment were the construction of the main building of the Estonian Internal Security Service in Tallinn, the design and construction of storage facilities and utility networks for the Centre for Defence Investment in Harju county, the construction of the building and outdoor premises of the Karlsson kindergarten in Viljandi and the construction of the Viljandi Rescue Station.

The apartment buildings subsegment earns most of its revenue from the construction of apartment buildings for third parties. During the period, the largest projects of this kind were the design and construction of the Luccaranna and the Kastanikodu housing estates near Tallinn. Revenue generated by the group's own development operations decreased, amounting to €5,510 thousand (H1 2022: €6,335 thousand). Nordecon continues the development of the Mõisavahe Kodu (https://moisavahe.ee) housing estate and the construction of the Emajõe Residents (https://emajoeresidents.ee) housing estate, which is situated near the city centre on the bank of the river Emajõgi (both in Tartu). The group is also making preparations for the construction of an apartment building in the Kivimäe Süda development in the Nõmme district in Tallinn (https://www.kivimaesuda.ee/en) and moving on with the design of the Seileri Kvartal housing estate in Pärnu (https://seileri.ee/en). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects in the commercial buildings subsegment were the construction of the commercial and residential complex Vektor and the Ahtri 4 office building in Tallinn, the design and construction of the Männiku commercial building in the Kandiküla district in Tartu, and the construction of a biopharmaceuticals manufacturing facility for Icosagen AS in Kambja municipality.

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

Revenue breakdown in the Buildings segment	H1 2023	H1 2022	H1 2021	2022
Public buildings	33%	28%	30%	30%
Apartment buildings	31%	30%	30%	28%
Commercial buildings	25%	26%	31%	24%
Industrial and warehouse facilities	11%	16%	9%	18%

In the Infrastructure segment, the largest revenue contributor is still road construction and maintenance although its revenue has decreased year on year by roughly 25%. During the period, a major share of the subsegment's revenue resulted from the construction of the Tagadi ecoduct on the Rail Baltica route, the construction of the Neanurme–Pikknurme 2+1 road section of the Tallinn–Tartu–Võru–Luhamaa road in Jõgeva county and the reconstruction of the Hageri–Kohila road section in Harju county. The group also continues to deliver road maintenance services in Järva county.

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

Revenue breakdown in the Infrastructure segment	H1 2023	H1 2022	H1 2021	2022
Road construction and maintenance	65%	81%	86%	75%
Other engineering	20%	14%	4%	20%
Environmental engineering	15%	0%	5%	0%
Specialist engineering (incl. hydraulic engineering)	0%	5%	5%	5%

Financial review

Financial performance

Nordecon ended the first half of 2023 with a gross profit of €4,731 thousand (H1 2022: €3,181 thousand). Profitability improved year on year with the group's gross margin rising to 3.8% for the half-year (H1 2022: 2.1%) and 4.5% for the second quarter (Q2 2022: 2.5%). Both operating segments earned a profit in both the second quarter and the first half year and improved their profitability significantly. The gross margin of the Buildings segment was 5.0% for the half-year and 4.9% for the second quarter (H1 2022: 3.8% and Q2 2022: 3.4%). The gross margins of the Infrastructure segment were lower: 0.1% for the half-year and 4.5% for the second quarter (H1 2022: (6.4)% and Q2 2022: (0.3)%).

The group's administrative expenses for the period were €3,852 thousand. Compared with a year earlier, administrative expenses grew by around 24% (H1 2022: €3,118 thousand) due to growth in staff costs (see note 11). The ratio of administrative expenses to revenue (12 months rolling) increased year on year, rising to 2.7% (H1 2022: 2.0%).

The group earned an operating profit of €673 thousand in the first half of 2023 (H1 2022: €1,457 thousand). EBITDA for the period was €2,405 thousand (H1 2022: €3,158 thousand). The operating profit and EBITDA for the comparative period were influenced by other income of €1,560 thousand, recognised after the approval of the restructuring plan of Swencn AB according to which the claims of the entity's creditors were to be settled to the extent of 25%.

The group's finance income and costs are affected by exchange rate fluctuations in the group's foreign markets (see the chapter *Financial risks*). During the period, the Ukrainian hryvnia weakened against the euro by around 2.6% and the Swedish krona weakened against the euro by around 5.8%. The translation of the loans provided to the group's Ukrainian and Swedish subsidiaries in euros into the local currencies gave rise to a net exchange loss of €241 thousand (H1 2022: €2 thousand). The group's finance costs also grew due to the rise in interest rates.

The group ended the period with a net loss of €1,590 thousand (H1 2022: a net profit of €26 thousand). The net loss attributable to owners of the parent, Nordecon AS, was €2,493 thousand (H1 2022: a net loss of €928 thousand).

Cash flows

Operating activities in the first half of 2023 produced a net cash inflow of €4,329 thousand (H1 2022: an outflow of €1,955 thousand). Operating cash flow is strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments while the group has to make prepayments to subcontractors and materials suppliers. Cash inflow is also reduced by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities of the period resulted in a net cash outflow of €387 thousand (H1 2022: an inflow of €239 thousand). Investments in property, plant and equipment amounted to €185 thousand (H1 2022: €97 thousand) and proceeds from the sale of property, plant and equipment amounted to €291 thousand (H1 2022: €322 thousand). Loans provided amounted to €524 thousand (H1 2022: €9 thousand).

Financing activities for the half year generated a net cash outflow of €2,811 thousand (H1 2022: an outflow of €2,348 thousand). Loans received amounted to €1,242 thousand, consisting of the use overdrafts and development loans (H1 2022: €1,870 thousand). Repayments of loans received were €650 thousand (H1 2022: €1,605 thousand), consisting of regular repayments of long-term investment and development loans. Lease payments were €1,447 thousand (H1 2022: €1,790 thousand). Dividends paid in the first half of 2023 amounted to €1,355 thousand (H1 2022: €391 thousand).

The group's cash and cash equivalents at 30 June 2023 amounted to €8,369 thousand (30 June 2022: €4,967 thousand). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks.*

Key financial figures and ratios

Figure/ratio	H1 2023	H1 2022	H1 2021	2022
Revenue (€'000)	123,819	149,256	117,966	322,860
Revenue change	(17)%	27%	(14)%	11.9%
Net profit (loss) (€'000)	(1,590)	26	(2,390)	(1,441)
Net profit (loss) attributable to owners of the parent (€'000)	(2,493)	(928)	(2,148)	(3,650)
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (€)	(0.08)	(0.03)	(0.07)	(0.12)
Administrative expenses to revenue	3.1%	2.1%	2.4%	2.3%
Administrative expenses to revenue (rolling)	2.7%	2.0%	2.2%	2.3%
EBITDA (€'000)	2,405	3,158	92	5,766
EBITDA margin	1.9%	2.1%	0.1%	1.8%
Gross margin	3.8%	2.1%	1.1%	2.6%
Operating margin	0.5%	1.0%	(1.4)%	0.7%
Operating margin excluding gain on non-current asset sales	0.4%	0.9%	(1.4)%	0.6%
Net margin	(1.3)%	0.0%	(2.0)%	(0.4)%
Return on invested capital	(1.0)%	1.2%	(2.1)%	(0.5)%
Return on equity	(6.1)%	0.1%	(6.9)%	(5.2)%
Equity ratio	17.1%	18.2%	22.6%	19.8%
Return on assets	(1.1)%	0.0%	(1.7)%	(1.1)%
Gearing	30.0%	37.2%	31.4%	32.0%
Current ratio	0.89	0.91	0.97	0.88
	30 June 2023	**30 June 2022**	**30 June 2021**	**31 Dec 2022**
Order book (€'000)	256,328	220,687	269,448	149,799

Revenue change = (revenue for the reporting period / revenue for the previous period) – 1 * 100

Earnings per share (EPS) = net profit or loss attributable to owners of the parent / weighted average number of shares outstanding

Administrative expenses to revenue = (administrative expenses / revenue) * 100

Administrative expenses to revenue (rolling) = (past four quarters' administrative expenses / past four quarters' revenue) * 100

EBITDA = operating profit or loss + depreciation and amortisation + impairment losses on goodwill

EBITDA margin = (EBITDA / revenue) * 100

Gross margin = (gross profit or loss / revenue) * 100

Operating margin = (operating profit or loss / revenue) * 100

Operating margin excluding gain on non-current asset sales = ((operating profit or loss – gain on sales of non-current assets – gain on sales of real estate) / revenue) * 100

Net margin = (net profit or loss for the period / revenue) * 100

Return on invested capital = ((profit or loss before tax + interest expense) / the period's average (interest-bearing liabilities + equity)) * 100

Return on equity = (net profit or loss for the period / the period's average total equity) * 100

Equity ratio = (total equity / total liabilities and equity) * 100

Return on assets = (net profit or loss for the period / the period's average total assets) * 100

Gearing = ((interest-bearing liabilities – cash and cash equivalents) / (interest-bearing liabilities + equity)) * 100

Current ratio = total current assets / total current liabilities

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at €256,328 thousand at 30 June 2023, reflecting 16% growth compared to the same period last year. The group signed new contracts of €208,460 thousand during the half year (H1 2022: €89,661 thousand), of which contracts of €123,530 thousand were signed in the second quarter (Q2 2022: €26,494 thousand). The surge in materials prices and the uptrend in interest rates due to the rise in EURIBOR have made development projects significantly more expensive and caused the postponement of new projects. The volume of investments made by the Transport Administration has decreased sharply and this has had a direct impact on the size of the order book of the Infrastructure segment. The volume of procurements for the Rail Baltica project has increased and will partly counterbalance the decline in the investments of the Transport Administration. While public investments in the buildings construction segment have also decreased, investments in national defence infrastructure are going to increase according to currently available information and this is a subsegment where Nordecon has traditionally been very successful.

	30 June 2023	30 June 2022	30 June 2021	31 Dec 2022
Order book (€'000)	256,328	220,687	269,448	149,799

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

Larger contracts secured in the second quarter include:

- the reconstruction of the Hageri–Kohila section on kilometres 8.7-16.0 of national road no. 11220 Kernu–Kohila with an approximate cost of €3,460 thousand;
- the construction of wind turbine foundations for the Aidu wind farm in Ida-Viru county, Lüganuse municipality, with an approximate cost of €5,000 thousand;
- the construction of four terraced houses with 36 apartments in the Laaneserva housing estate in Viimsi municipality with an approximate cost of €6,800 thousand;
- the construction of a new school building with a sports facility for Saku Upper Secondary School with an approximate cost of €24,100 thousand;
- the design and construction of storage facilities for the Centre for Defence Investment in Harju county with an approximate cost of €8,400 thousand;
- the construction of an office building for the Centre for Defence Investment in Tallinn, with an approximate cost of €13,000 thousand;
- the design and construction of a commercial and residential building to be built on the corner of Volta and Kopli streets in Tallinn – the second stage of a new business quarter – with an approximate cost of €51,000 thousand;
- the construction of office and production facilities at Vana-Narva mnt 10 in Maardu, with an approximate cost of €7,400 thousand.

Based on the size of the group's order book, including the share of work to be performed in 2023 and 2024, and the overall situation in the construction market, management forecasts that in 2023 the group's revenue will decrease compared with 2022. Increasing competition and cost inflation, particularly the growth in labour costs, will continue to drive up input prices, which will keep profit margins under pressure. In an environment of stiff competition, we will avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the group's results. Our focus remains on cost control as well as pre-construction and design activities, where we can deploy our professional competitive advantages.

People

Employees and staff costs

The group's average number of employees in the first half of 2023 was 572, including 384 engineers and technical professionals (ETP). Headcount decreased by around 15% year on year, mainly due to the restructuring of the group's infrastructure construction business.

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

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

The group's staff costs for the first half of 2023, including all taxes, were €12,799 thousand compared with €12,936 thousand in the same period last year. Pressures for wage growth persist and the decline in staff costs was due to the decrease in workforce.

The service fees of the members of the council of Nordecon AS for the first half of 2023 were €79 thousand and associated social security charges were €26 thousand (H1 2022: €75 thousand and €25 thousand, respectively).

The service fees of the members of the board of Nordecon AS were €253 thousand and associated social security charges were €83 thousand (H1 2022: €202 thousand and €67 thousand, respectively).

Labour productivity and labour cost efficiency

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

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

Nominal labour productivity (rolling) = (past four quarters' revenue) / (past four quarters' average number of employees)
Nominal labour cost efficiency (rolling) = (past four quarters' revenue) / (past four quarters' staff costs)

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

Share and shareholders

Share information

Name of security	Nordecon AS ordinary share
Issuer	Nordecon AS
ISIN code	EE3100039496
Ticker symbol	NCN1T
Nominal value	No par value*
Total number of securities issued	32,375,483
Number of listed securities	32,375,483
Listing date	18 May 2006
Market	Nasdaq Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	OMX Baltic Industrials GI; OMX Baltic Industrials PI; OMX Baltic Construction & Materials GI; OMX Baltic Construction & Materials PI; OMX_Baltic_GI; OMX_Baltic_PI; OMX Tallinn_GI

*In connection with Estonia's accession to the euro area on 1 January 2011 and based on amendments to the Estonian Commercial Code which took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from EEK 307,567,280 (Estonian kroons) to €19,657,131.9. Concurrently with the conversion, the company adopted shares with no par value.

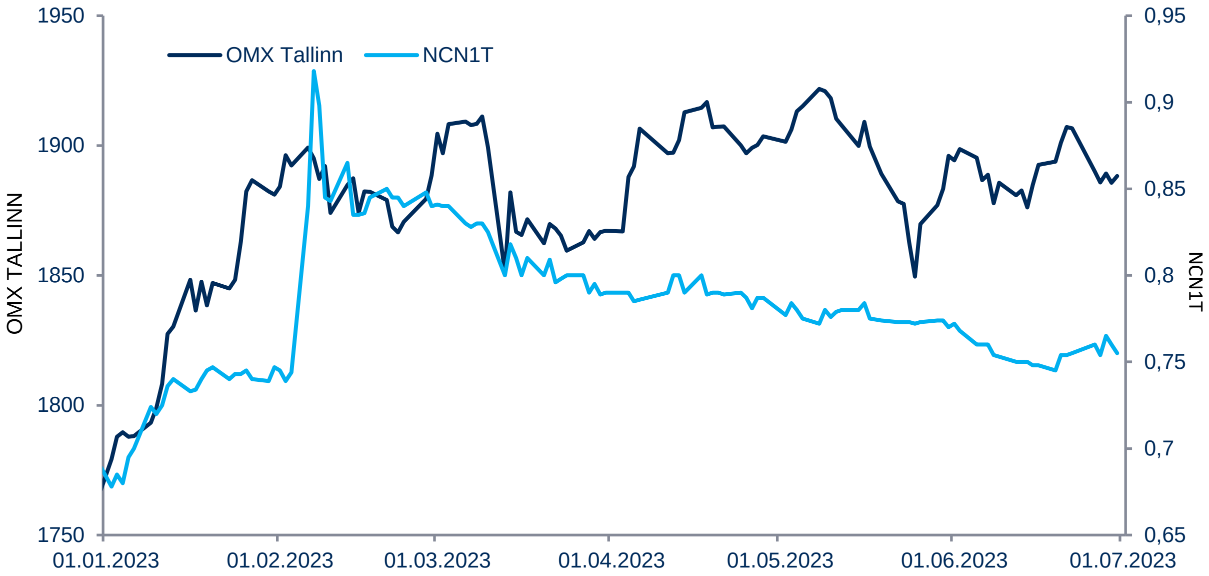
In July 2014, Nordecon AS issued 1,618,755 new shares with a total cost of €1,581,523.64, increasing share capital by €1,034,573.01 to €20,691,704.91, and acquired the same number of own (treasury) shares for the same price. The share capital of Nordecon AS consists of 32,375,483 ordinary registered shares with no par value.

Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meeting of Nordecon AS.

Movements in the price and trading volume of the Nordecon AS share in H1 2023

Movements in the share price are in euros and daily turnover in the bar chart is in thousands of euros

Movement of the share price compared with the OMX Tallinn Index in H1 2023



Index/equity	1 January 2023*	30 June 2023	+/-
OMX Tallinn	1,766.73	1,888.25	6.88%
NCN1T	€0.69	€0.76	9.42%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2022

Summarised trading results

Share trading history

Price, €	H1 2023	H1 2022	H1 2021
Open	0.69	1.21	1.15
High	0.93	1.29	1.84
Low	0.67	0.78	1.08
Last closing price	0.76	0.79	1.41
Traded volume (number of securities traded)	816,736	1,541,320	4,188,426
Turnover, € million	0.64	1.61	5.65
Listed volume (30 June), thousand	32,375	32,375	32,375
Market capitalisation (30 June), € million	24.44	25.71	45.65

Shareholder structure

Largest shareholders of Nordecon AS at 30 June 2023

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,563,145	51.16
Luksusjaht AS	4,322,342	13.35
Toomas Luman	714,100	2.21
Olegs Radcenko	574,200	1.77
Lembit Talpsepp	376,239	1.16
Nõmme Erahariduse SA	370,370	1.14
SEB Pank AS clients	300,000	0.93
SEB Life and Pension Baltic SE Estonian branch	255,000	0.79
Genadi Bulatov	250,600	0.77
Endel Palla	200,000	0.62

Shareholder structure of Nordecon AS at 30 June 2023

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	64.51
Shareholders with interest from 1% to 5%	4	6.29
Shareholders with interest below 1%	6,747	26.58
Holder of own (treasury) shares	1	2.62
Total	**6,754**	**100**

Shares controlled by members of the council of Nordecon AS at 30 June 2023

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	17,422,245	53.81
Andri Hõbemägi	Member of the Council	50,000	0.15
Andre Luman	Member of the Council	25,000	0.08
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Total		**17,507,245**	**54.07**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 June 2023

Board member		Number of shares	Ownership interest (%)
Gerd Müller	Chairman of the Board	0	0.00
Priit Luman	Member of the Board	7,000	0.02
Tarmo Pohlak	Member of the Board	3,942	0.01
Maret Tambek	Member of the Board	0	0.00
Total		**10,942**	**0.03**

Management's confirmation and signatures

The board confirms that the *Directors' report* presents fairly all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements, contains a description of the main risks and uncertainties and provides an overview of significant transactions with related parties.

Gerd Müller	Chairman of the Board	3 August 2023
Priit Luman	Member of the Board	3 August 2023
Tarmo Pohlak	Member of the Board	3 August 2023
Maret Tambek	Member of the Board	3 August 2023

Condensed consolidated interim financial statements

Consolidated statement of financial position

€'000	Note	30 June 2023	31 December 2022
ASSETS			
Current assets			
Cash and cash equivalents		8,369	7,238
Trade and other receivables	2	54,734	48,084
Prepayments		5,514	6,728
Inventories	3	28,880	25,454
Total current assets		**97,497**	**87,504**
Non-current assets			
Other investments		76	76
Trade and other receivables	2	8,957	8,604
Investment property		5,547	8,347
Property, plant and equipment		16,774	17,669
Intangible assets		15,152	15,134
Total non-current assets		**46,506**	**49,830**
TOTAL ASSETS		**144,003**	**137,334**
LIABILITIES			
Current liabilities			
Borrowings	5	16,701	17,193
Trade payables		69,420	65,144
Other payables		7,034	8,324
Deferred income		14,726	6,996
Provisions		1,160	1,288
Total current liabilities		**109,041**	**98,945**
Non-current liabilities			
Borrowings	5, 6	5,767	6,311
Trade payables		2,080	2,769
Provisions		2,546	2,049
Total non-current liabilities		**10,393**	**11,129**
TOTAL LIABILITIES		**119,434**	**110,074**
EQUITY			
Share capital		14,379	14,379
Own (treasury) shares		(660)	(660)
Share premium		635	635
Statutory capital reserve		2,554	2,554
Translation reserve		3,570	3,316
Retained earnings		198	2,691
Total equity attributable to owners of the parent		**20,676**	**22,915**
Non-controlling interests		**3,893**	**4,345**
TOTAL EQUITY		**24,569**	**27,260**
TOTAL LIABILITIES AND EQUITY		**144,003**	**137,334**

Consolidated statement of comprehensive income

€'000	Note	H1 2023	Q2 2023	H1 2022	Q2 2022	2022
Revenue	8, 9	123,819	76,166	149,256	80,803	322,860
Cost of sales	10	(119,088)	(72,757)	(146,075)	(78,769)	(314,365)
Gross profit		**4,731**	**3,409**	**3,181**	**2,034**	**8,495**
Marketing and distribution expenses		(317)	(181)	(186)	(115)	(490)
Administrative expenses	11	(3,852)	(1,982)	(3,118)	(1,513)	(7,287)
Other operating income	12	313	201	1,856	103	2,049
Other operating expenses	12	(202)	(169)	(276)	(2)	(462)
Operating profit		**673**	**1,278**	**1,457**	**507**	**2,305**
Finance income	13	145	71	146	79	258
Finance costs	13	(1,812)	(912)	(1,377)	(43)	(3,740)
Net finance income (costs)		**(1,667)**	**(841)**	**(1,231)**	**36**	**(3,482)**
Profit (loss) before income tax		**(994)**	**437**	**226**	**543**	**(1,177)**
Income tax expense		(596)	(353)	(200)	(200)	(264)
Profit (loss) for the period		**(1,590)**	**84**	**26**	**343**	**(1,441)**
Other comprehensive income (expense)						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translating foreign operations		254	85	(259)	(413)	1,368
Total other comprehensive income (expense)		**254**	**85**	**(259)**	**(413)**	**1,368**
TOTAL COMPREHENSIVE INCOME (EXPENSE)		**(1,336)**	**169**	**(233)**	**(70)**	**(73)**
Profit (loss) attributable to:						
- Owners of the parent		(2,493)	(619)	(928)	(10)	(3,650)
- Non-controlling interests		903	703	954	353	2,209
Profit (loss) for the period		**(1,590)**	**84**	**26**	**343**	**(1,441)**
Comprehensive income (expense) attributable to:						
- Owners of the parent		(2,239)	(534)	(1,187)	(423)	(2,282)
- Non-controlling interests		903	703	954	353	2,209
Comprehensive income (expense) for the period		**(1,336)**	**169**	**(233)**	**(70)**	**(73)**
Earnings per share attributable to owners of the parent:						
Basic earnings per share (€)	7	(0.08)	(0.02)	(0.03)	(0.00)	(0.12)
Diluted earnings per share (€)	7	(0.08)	(0.02)	(0.03)	(0.00)	(0.12)

Consolidated statement of cash flows

€'000	Note	H1 2023	H1 2022
Cash flows from operating activities			
Cash receipts from customers[1]		157,087	177,608
Cash paid to suppliers[2]		(133,900)	(162,328)
VAT paid		(5,531)	(4,447)
Cash paid to and for employees		(12,640)	(12,476)
Income tax paid		(687)	(312)
Net cash from (used in) operating activities		**4,329**	**(1,955)**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(185)	(97)
Proceeds from sale of property, plant and equipment	4	291	322
Acquisition of intangible assets		0	0
Loans provided		(524)	(9)
Repayments of loans provided		10	11
Dividends received		12	6
Interest received		9	6
Net cash from (used in) investing activities		**(387)**	**239**
Cash flows from financing activities			
Proceeds from loans received		1,242	1,870
Repayments of loans received		(650)	(1,605)
Lease payments made	6	(1,447)	(1,790)
Interest paid		(601)	(428)
Dividends paid		(1,355)	(391)
Other payments made		0	(4)
Net cash used in financing activities		**(2,811)**	**(2,348)**
Net cash flow		**1,131**	**(4,064)**
Cash and cash equivalents at beginning of period		**7,238**	**9,031**
Change in cash and cash equivalents		1,131	(4,064)
Cash and cash equivalents at end of period		**8,369**	**4,967**

[1] Line item *Cash receipts from customers* includes VAT paid by customers.

[2] Line item *Cash paid to suppliers* includes VAT paid.

Consolidated statement of changes in equity

€'000	Equity attributable to owners of the parent								
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2021	**14,379**	**(660)**	**2,554**	**635**	**1,948**	**6,341**	**25,197**	**2,929**	**28,126**
Loss for the period	0	0	0	0	0	(928)	(928)	954	26
Other comprehensive expense					(259)	0	(259)	0	(259)
Transactions with owners									
Dividend distribution	0	0	0	0	0	0	0	(391)	(391)
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	0	**0**	**(391)**	**(391)**
Balance at 30 June 2022	**14,379**	**(660)**	**2,554**	**635**	**1,689**	**5,413**	**24,010**	**3,492**	**27,502**
Balance at 31 December 2022	**14,379**	**(660)**	**2,554**	**635**	**3,316**	**2,691**	**22,915**	**4,345**	**27,260**
Loss for the period	0	0	0	0	0	(2,493)	(2,493)	903	(1,590)
Other comprehensive income					254	0	254	0	254
Transactions with owners									
Dividend distribution	0	0	0	0	0	0	0	(1,355)	(1,355)
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	0	**0**	**(1,355)**	**(1,355)**
Balance at 30 June 2023	**14,379**	**(660)**	**2,554**	**635**	**3,570**	**198**	**20,676**	**3,893**	**24,569**

Notes to the condensed consolidated interim financial statements

NOTE 1. Significant accounting policies

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Toompuiestee 35, Tallinn 10149, Estonia. Nordecon AS's majority shareholder and the party controlling the Nordecon group is AS Nordic Contractors that holds 51.16% of the shares in Nordecon AS. The Nordecon AS shares have been listed on the Nasdaq Tallinn Stock Exchange since 18 May 2006.

The condensed consolidated interim financial statements as at and for the period ended 30 June 2023 have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. The condensed interim financial statements do not contain all the information presented in the annual financial statements and should be read in conjunction with the group's latest published annual financial statements as at and for the year ended 31 December 2022.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the second quarter and first half of 2023 give a true and fair view of the group's financial performance and the parent and all its subsidiaries that are included in the financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and contain only the consolidated financial statements of the group.

NOTE 2. Trade and other receivables

€'000	Note	30 June 2023	31 December 2022
Current items			
Trade receivables		38,044	31,882
Retentions receivable		4,201	6,501
Receivables from related parties	14	490	373
Other receivables		237	147
Loans provided		586	0
Interest receivable		10	0
Total receivables		**43,568**	**38,903**
Due from customers for contract work		11,166	9,181
Total current trade and other receivables		**54,734**	**48,084**

€'000	Note	30 June 2023	31 December 2022
Non-current items			
Loans provided to related parties	14	8,027	7,899
Receivables from related parties	14	210	235
Other non-current receivables		720	470
Total non-current trade and other receivables		**8,957**	**8,604**

NOTE 3. Inventories

€'000	30 June 2023	31 December 2022
Raw materials and consumables	5,144	4,228
Work in progress	13,748	10,793
Parking spaces for sale	223	223
Properties purchased for development and pre-development costs	9,765	10,210
Total inventories	**28,880**	**25,454**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

Additions to property, plant and equipment in the first half of 2023 amounted to €1,133 thousand (H1 2022: €2,142 thousand) and comprised equipment and machinery required for the group's operating activities.

Proceeds from the sale of property, plant and equipment amounted to €291 thousand (see the statement of cash flows) and associated sales gain was €201 thousand (note 12). In the first half of 2022, sales proceeds and gain amounted to €322 thousand and €167 thousand, respectively.

Intangible assets

There were no significant transactions with intangible assets during the period.

NOTE 5. Borrowings

Current borrowings

€'000	Note	30 June 2023	31 December 2022
Short-term portion of long-term loans		1,300	2,625
Lease liabilities	6	2,771	3,096
Short-term bank loans		12,630	11,472
Total current borrowings		**16,701**	**17,193**

Non-current borrowings

€'000	Note	30 June 2023	31 December 2022
Lease liabilities	6	5,767	6,311
Total non-current borrowings		**5,767**	**6,311**

NOTE 6. Lease liabilities

€'000	Note	30 June 2023	31 December 2022
Lease liabilities at end of period, of which		**8,538**	**9,407**
Not later than 1 year	5	2,771	3,096
Later than 1 year and not later than 5 years	5	5,767	6,311
Base currency €		8,538	9,407
Interest rate for contracts denominated in €[1]		2.7%-10.51%	1.8%-3.5%
Frequency of payments		Monthly	Monthly

[1] Includes leases with floating interest rates

Lease payments

€'000	H1 2023	H1 2022
Principal payments made during the period	1,447	1,790
Interest payments made during the period	217	84

Short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

NOTE 7. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the parent by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the parent by the average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

€'000	H1 2023	H1 2022
Net loss for the period attributable to owners of the parent (€'000)	(2,493)	(928)
Weighted average number of shares (thousand)	31,528	31,528
Basic earnings per share (€)	(0.08)	(0.03)
Diluted earnings per share (€)	(0.08)	(0.03)

At the reporting date, Nordecon AS had no dilutive share options. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 8. Segment reporting – operating segments

The group's chief operating decision maker is the board of the parent company Nordecon AS. This group of persons monitors the group's internally generated financial information on a regular basis to better allocate the resources and assess their utilisation. Reportable operating segments are identified by reference to monitored information.

The group's reportable operating segments are:

- Buildings
- Infrastructure

Reportable operating segments are engaged in the provision of construction services in the buildings and infrastructure segments.

Preparation of segment reporting

The prices applied in intersegment transactions do not differ significantly from market prices. The chief operating decision maker reviews intersegment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined in segment reporting.

The chief operating decision maker assesses the performance of an operating segment and utilisation of the resources allocated to it through the segment's profit. The profit of an operating segment is its gross profit, which does not include major exceptional expenses (such as non-recurring asset write-downs). Items after the gross profit of an operating segment (incl. marketing and distribution expenses, administrative expenses, interest expense and income tax expense) are not used by the chief operating decision maker to assess the performance of the segment.

According to management's assessment, intersegment transactions are conducted on regular market terms, which do not differ significantly from the terms applied in transactions with third parties.

Second quarter

€'000 Q2 2023	Buildings	Infrastructure	Total
Total revenue	59,181	17,368	76,549
Of which: General contracting services	53,237	16,029	69,266
Subcontracting services	107	406	513
Road maintenance services	0	465	465
Rental services	0	468	468
Own development activities	3,337	0	3,337
Investment property	2,500	0	2,500
Intersegment revenue	0	(396)	(396)
Revenue from external customers	**59,181**	**16,972**	**76,153**
Gross profit of the segment	**2,898**	**762**	**3,660**

€'000 Q2 2022	Buildings	Infrastructure	Total
Total revenue	65,617	15,507	81,124
Of which: General contracting services	62,175	12,547	74,722
Subcontracting services	0	1,892	1,892
Road maintenance services	0	758	758
Rental services	0	309	309
Own development activities	3,442	0	3,442
Intersegment revenue	0	(371)	(371)
Revenue from external customers	**65,617**	**15,135**	**80,752**
Gross profit (loss) of the segment	**2,263**	**(47)**	**2,216**

Half year

€'000 H1 2023	Buildings	Infrastructure	Total
Total revenue	103,970	20,565	124,535
Of which: General contracting services	95,108	16,937	112,045
Subcontracting services	852	1,333	2,185
Road maintenance services	0	1,577	1,577
Rental services	0	718	718
Own development activities	5,510	0	5,510
Investment property	2,500	0	2,500
Intersegment revenue	0	(743)	(743)
Revenue from external customers	**103,970**	**19,822**	**123,792**
Gross profit of the segment	**5,188**	**13**	**5,201**

€'000 H1 2022	Buildings	Infrastructure	Total
Total revenue	128,430	21,106	149,536
Of which: General contracting services	119,950	15,028	134,978
Subcontracting services	1,345	3,649	4,994
Road maintenance services	0	1,996	1,996
Rental services	0	433	433
Own development activities	6,335	0	6,335
Investment property	800	0	800
Intersegment revenue	0	(403)	(403)
Revenue from external customers	**128,430**	**20,703**	**149,133**
Gross profit (loss) of the segment	**4,859**	**(1,328)**	**3,531**

Reconciliation of segment revenues

€'000	H1 2023	Q2 2023	H1 2022	Q2 2022
Total revenues for reportable segments	124,535	76,549	149,536	81,124
Elimination of intersegment revenues	(743)	(396)	(403)	(371)
Other revenue	27	13	123	50
Total revenue	**123,819**	**76,166**	**149,256**	**80,803**

Reconciliation of segment profit (loss)

€'000	H1 2023	Q2 2023	H1 2022	Q2 2022
Total profit for reportable segments	5,201	3,660	3,531	2,216
Unallocated profit (loss)	(470)	(251)	(350)	(182)
Gross profit	**4,731**	**3,409**	**3,181**	**2,034**
Unallocated expenses:				
Marketing and distribution expenses	(317)	(181)	(186)	(115)
Administrative expenses	(3,852)	(1,982)	(3,118)	(1,513)
Other operating income and expenses	111	32	1,580	101
Operating profit	**673**	**1,278**	**1,457**	**507**
Finance income	145	71	146	79
Finance costs	(1,812)	(912)	(1,377)	(43)
Profit (loss) before tax	**(994)**	**437**	**226**	**543**

NOTE 9. Segment reporting – geographical information

€'000	H1 2023	Q2 2023	H1 2022	Q2 2022
Estonia	122,763	76,021	144,645	79,817
Ukraine	937	586	578	346
Finland	897	152	1,494	0
Latvia	0	0	2,539	640
Intersegment eliminations	(778)	(593)	0	0
Total revenue	**123,819**	**76,166**	**149,256**	**80,803**

NOTE 10. Cost of sales

€'000	H1 2023	H1 2022
Cost of materials, goods and services	106,835	132,997
Staff costs	10,860	11,555
Depreciation expense	1,196	1,339
Other expenses	197	184
Total cost of sales	**119,088**	**146,075**

NOTE 11. Administrative expenses

€'000	H1 2023	H1 2022
Staff costs	1,902	1,361
Cost of materials, goods and services	1,300	1,315
Depreciation and amortisation expense	536	362
Other expenses	114	80
Total administrative expenses	**3,852**	**3,118**

NOTE 12. Other operating income and expenses

€'000	H1 2023	H1 2022
Other operating income		
Gain on disposal of property, plant and equipment	201	175
Other income	112	1,681
Total other operating income	**313**	**1,856**

€'000	H1 2023	H1 2022
Other operating expenses		
Foreign exchange loss	0	2
Loss on sale of property, plant and equipment	0	8
Loss on impairment of receivables	0	182
Other expenses	202	84
Total other operating expenses	**202**	**276**

NOTE 13. Finance income and costs

€'000	H1 2023	H1 2022
Finance income		
Interest income on loans	127	112
Foreign exchange gain	0	28
Other finance income	18	6
Total finance income	**145**	**146**

€'000	H1 2023	H1 2022
Finance costs		
Interest expense	490	406
Foreign exchange loss	241	30
Other finance costs	1,081	941
Total finance costs	**1,812**	**1,377**

NOTE 14. Transactions with related parties

The group considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions (assumes holding more than 20% of the voting power). Related parties include:

- Nordecon AS's parent company AS Nordic Contractors and its shareholders
- Other companies of the AS Nordic Contractors group
- Equity-accounted investees (associates and joint ventures) of the Nordecon group
- Members of the board and council of Nordecon AS, their close family members and companies related to them
- Individuals whose shareholding implies significant influence

The group's purchase and sales transactions with related parties

€'000		H1 2023		H1 2022
Counterparty	**Purchases**	**Sales**	**Counterparty**	**Purchases**
AS Nordic Contractors	1,227	0	305	0
Companies of the AS Nordic Contractors group	101	8	120	5
Companies related to owners of AS Nordic Contractors	43	38	0	434
Companies related to members of the council	244	0	17	0
Total	**1,615**	**46**	**442**	**439**

€'000		H1 2023		H1 2022
Nature of transaction	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	0	38	0	434
Transactions with goods	242	0	14	0
Lease and other services	230	5	283	5
Other transactions	1,143	3	145	0
Total	**1,615**	**46**	**442**	**439**

During the period, the group recognised interest income on loans to an associate of €109 thousand (H1 2022: €108 thousand).

Receivables from and liabilities to related parties at period-end

		30 June 2023		31 December 2022
€'000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	0	14	0	16
Companies of the AS Nordic Contractors group	3	0	278	234
Companies related to owners of AS Nordic Contractors	694	40	329	18
Associates – receivables and liabilities	3	0	1	1
Associate – loans and interest	8,027	0	7,899	0
Total	**8,727**	**54**	**8,507**	**269**

Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for the first half of 2023 were €79 thousand and associated social security charges were €26 thousand (H1 2022: €75 thousand and €25 thousand, respectively).

The service fees of the members of the board of Nordecon AS were €253 thousand and associated social security charges were €83 thousand (H1 2022: €202 thousand and €67 thousand, respectively).

NOTE 15. Events after the reporting period

Merger of the group's subsidiaries

At the beginning of April 2023, Nordecon AS decided to merge two wholly-held subsidiaries, Tariston AS and Kaurits OÜ. The purpose of merging two successful infrastructure construction companies with a good long-term track record was to complete the group's strategic plan of consolidating all infrastructure construction resources, competencies and operations into a single entity. The merger was finalised on 7 July 2023.

Statements and signatures

Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the group's condensed consolidated interim financial statements for the second quarter and first half of 2023 and confirms that:

- the policies applied in the preparation of the condensed consolidated interim financial statements comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
- the condensed consolidated interim financial statements, which have been prepared in accordance with financial reporting standards effective for the period, give a true and fair view of the assets, liabilities, financial position, financial performance and cash flows of the group consisting of the parent and other consolidated entities.

Gerd Müller	Chairman of the Board	3 August 2023
Priit Luman	Member of the Board	3 August 2023
Tarmo Pohlak	Member of the Board	3 August 2023
Maret Tambek	Member of the Board	3 August 2023