

HLRE Holding Group

Half-Year Financial Report 1 February – 31 July 2023

Comparison figures in brackets refer to the corresponding period previous year.

Brief Look at May – July 2023

- Q2 revenue decreased by 19% to EUR 26,5 EUR million (EUR 32,8 Million).
- Q2 gross profit decreased to EUR 11,1 million (EUR 11,9 Million).
- Q2 adjusted EBITDA was EUR 1,4 million (EUR 1,7 million).
- Q2 net cash from operating activities was EUR 0,6 million (EUR -0,2 Million).

Brief Look at February – July 2023

- H1 revenue decreased by 14% to EUR 52,4 EUR million (EUR 60,7 Million).
- H1 gross profit decreased to EUR 20,9 million (EUR 23,2 Million).
- H1 adjusted EBITDA was EUR 2,3 million (EUR 3,6 million).
- H1 net cash from operating activities was EUR 2,0 million (EUR -2,2 Million).

Key Figures

HLRE HOLDING GROUP	May-Jul 23	May-Jul 22	Feb-Jul 2023	Feb-Jul 2022	Feb 22-Jan 23
EUR Million	Q2	Q2	Q1-Q2	Q1-Q2	Q1-Q4
Revenue	26,5	32,8	52,4	60,7	129,4
Gross profit	11,1	11,9	20,9	23,2	52,3
Gross margin,%	41,9 %	36,3 %	39,9 %	38,2 %	40,4 %
Adjusted EBITDA	1,4	1,7	2,3	3,6	10,8
EBIT	-0,6	-0,3	-2,4	-0,8	2,5
Net cash from operating activities	0,6	-0,2	2,0	-2,2	4,7

Company description

HLRE Holding Group (commonly known as Vesivek Group) is a leading provider of roof and roof product renovations offered primarily to detached and row houses in Finland and Sweden under the brand name Vesivek. In addition to roof and roof product installations, Vesivek provides underground drain renovations in eight locations in Finland. The Group also develops, manufactures, and sells high quality rainwater systems and roof safety products.

HLRE Holding Group operated in 14 locations in Finland and three locations in Sweden in July 2023 and employs around 800 employees currently on average. The Group has two in-house manufacturing facilities in Finland, steel roofing profile production in Pirkkala and manufacture of rainwater systems and roof safety products in Orimattila.

Management Overview of the second quarter

Q2 financial performance in roof and rainwater systems installation and underground drain renovation business in Finland and roof renovation in Sweden was below forecasted. Low sales volumes in general and short order backlog in both Finland and Sweden led to inefficiency in installations and to weaker profitability.

HLRE Group Ltd and Vesivek Ltd issued a change negotiation initiative on 10th of May 2023. The negotiations concerned all employees of HLRE Group Ltd (excluding payroll personnel) and salaried employees of Vesivek Ltd (joint functions, unit management, sales personnel, profile production and workshop repair unit, excluding B2B sales personnel and site installation managers). Further, Oulu/Tornio, Nurmijärvi/Lohja, Kerava/Orimattila units were excluded. The purpose of the change negotiations was to discuss the adaptation and reorganization of the operations of HLRE Group Ltd. and Vesivek Ltd. to better reflect the economic situation and weakened demand.

Negotiations were concluded at the end of May 2023. The decisions that were made based on the negotiations led to the dismissal of 5 people and the lay-offs of 18 people.

Group decided on May 2023 to close down the Oulu branch office in Tornio. The effect on personnel reduction was about 10 people from the end of July.

Second quarter April 2023 - July 2023

Q2 revenue decreased by 19 % to EUR 26,5 Million (32,8 Million). Low sales volumes and short order backlog in roof installations in both Finland and Sweden and underground drain renovations in Finland led to inefficiency in installations and to weaker profitability. Gross profit was EUR 11,1 million (11,9 Million) in Q22023.

Q2 reported EBITDA was EUR 1,3 Million (1,6 Million) and adjusted EBITDA EUR 1,4 Million (1,9 Million). Reported adjustments totaled to EUR 0,15 Million including one-offs regarding restructuring costs in the businesses in Finland of EUR 0,1 Million and other non-recurring costs of EUR 0,05 Million. Impact of the adjustments to the operating cashflow in Q2 amounted to EUR 0,15 Million (EUR 0,3 Million).

Q2 net cash from operating activities was EUR 0,6 Million (-0,2 Million) mainly resulting from more effective management of working capital.

First half 2023

H1 revenue decreased by 14% to EUR 52,4 EUR Million (EUR 60,7 Million). H1 gross profit decreased to EUR 20,9 million (EUR 23,2 Million). H1 reported EBITDA decreased to EUR 1,3 Million (3,1 Million) and adjusted EBITDA to EUR 2,3 Million (3,6 Million). Reported adjustments totaled to EUR 1,0 Million including one-offs regarding restructuring costs in the businesses in Finland of EUR 0,7 Million and other non-recurring costs of EUR 0,3 Million. Impact of the adjustments to the operating cashflow in Q2 amounted to EUR 0,75 Million (EUR 0,5 Million).

H1 net cash from operating activities was EUR 2,0 Million (-2,2 Million) thanks to continued effective management of working capital. Also, some sale of own fleet had positive effect on cash situation during the Q2 (0,3 M€).

Outlook for the financial year 1 February 2023 – 31 January 2024

No outlook for the financial year 1 February 2023 – 31 January 2024.

Risks and uncertainties

The Group's revenues and operating profit are affected by general economic conditions, which are, in turn, influenced by many factors beyond the Group's control. The Group currently operates in Finland and Sweden. Currently, the majority of the Group's operations are located in Finland but growth in both markets, for example, by way of increasing market share and/or expanding the Group's product and service offering is an important factor in fulfilling the Group's strategic objectives. Respectively, the Group's revenue and operating profit are particularly susceptible to general economic conditions and perception of future general economic conditions in the Finnish and Swedish markets.

Uncertainty or adverse trends in general economic conditions could affect the Group's business and demand for the Group's products and services through, inter alia, affecting consumer confidence as well as through adverse impacts on the business activities of the Group's corporate clients purchasing the Group's rainwater systems and roof safety products. Importantly, the general economic conditions may adversely affect the level and cost of financing available to the Group's consumer and corporate clients to make investments in renovations and refurbishments. Moreover, increases in the costs of financing and decreases in the level of available financing may adversely affect the Group's ability to make investments and fulfil its strategic objectives and may have a material adverse effect on the Group's business, financial position and results. Through its manufacturing operations, the Group is furthermore exposed to the risk of fluctuations in certain commodity prices (such as steel, aluminium and wood) and energy prices (especially through fuel costs for vehicles) and increases in prices due to economic disruptions and changes in general market conditions may have an adverse effect on the Group's business, financial position and results. All of the factors mentioned above could harm the Group's operations and the Group cannot predict the ways in which the future economic environment and market conditions may affect the Group's operations.

In general, the frequency of accidents at construction sites is worth noticing and the Group operates in a business segment subject to extensive laws and regulations regarding the work environment. Despite required health and safety measures and, for example, the use of scaffoldings on its construction sites improving the safety of the personnel, the Group is exposed to the risk of, possibly even fatal, accidents at the workplace especially on its roof renovation sites but also at its manufacturing facilities. In addition to physical injuries, employees of the Group are exposed to risks related to hazardous substances as certain of the Groups renovation sites contain asbestos. Respectively, the Group must also comply with specific environmental regulations with respect to asbestos. Finnish legislation includes particularly stringent requirements for any activities involving asbestos and the safety requirements for such activities. Any failure to comply with the regulations concerning health and safety or asbestos related activities may result in liability for the Group and/or the Group's permit being revoked. For example, if Group's permit to handle asbestos would be revoked, the Group would need to stop all business activities relating to handling of asbestos and acquire the work through subcontractors. Moreover, all potential accidents and health impacts have an adverse effect on its personnel's well-being. The Group as an employer is exposed to the risks related to health and safety issues of its employees possibly resulting in reduced working capacity of employees.

The Group may, in the future, become in breach of financial covenants and other obligations in its financing agreements that constitute grounds for termination or acceleration. A failure by the Group to obtain necessary capital in the future, or obtaining financing on less favourable terms, may have an adverse effect on the Group's business, financial position and results. The Group issued a three-year senior secured bond in an amount of SEK 300 million (approximately EUR 28-30 million) in February 2021 including EUR 2 million Super Senior RCF maturing 6 months prior to the bond termination date. A failure by the Group to refinance the bond and the SSRCF, or obtaining financing on substantially less favourable terms, have an adverse effect on the Group's business, financial position and results.

For more information

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Condensed financial statements for the period ended 31 July 2023

HLRE Holding Group
2611405-7

Consolidated Statement of Comprehensive Income 1000 EUR

	1.5.2023-31.7.2023	1.2.2023-31.7.2023	1.5.2022-31.7.2022	1.2.2022-31.7.2022	1.2.2022-31.1.2023
REVENUE	26 511	52 418	32 747	60 677	129 455
Other operating income	554	836	274	630	1 064
Material and services	-9 259	-18 518	-12 791	-22 678	-47 702
Employee benefits expense	-11 651	-22 835	-12 796	-24 172	-49 747
Depreciation and amortisation	-1 854	-3 776	-1 924	-3 873	-7 757
Other operating expenses	-4 859	-10 565	-5 809	-11 358	-22 844
OPERATING PROFIT	-557	-2 440	-299	-774	2 469
Finance income	1 156	1 238	-125	28	2 018
Finance cost	-1 227	-2 300	-614	-1 946	-4 450
Finance income and cost	-72	-1 062	-739	-1 919	-2 432
PROFIT/LOSS BEFORE TAX	-629	-3 503	-1 038	-2 693	36
Tax on income from operations	125	591	-38	239	-374
PROFIT/LOSS FOR THE PERIOD	-504	-2 911	-1 076	-2 454	-338
Profit attributable to:					
Owners of the parent company	-472	-2 841	-1 073	-2 448	-458
Non-controlling interests	-32	-71	-3	-5	120
	-504	-2 911	-1 076	-2 454	-338
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	-34	-33	-22	9	-147
	-34	-33	-22	9	-147
TOTAL COMPREHENSIVE INCOME	-538	-2 944	-1 097	-2 445	-484
Total comprehensive income attributable to:					
Owners of the parent company	-503	-2 871	-1 092	-2 440	-591
Non-controlling interests	-35	-73	-5	-5	107
	-538	-2 944	-1 097	-2 445	-484

Consolidated Statement of Financial Position

1000 EUR	31.7.2023	31.7.2022	31.1.2023
ASSETS			
NON-CURRENT ASSETS			
Goodwill	40 304	40 304	40 304
Intangible assets	785	766	976
Property, plant, equipment	23 778	27 272	26 261
Other non-current financial assets	48	48	48
Loan receivables	19	6	17
Non-current prepayments and accrued income (from others)	0	2	0
Deferred tax assets	742	567	235
NON-CURRENT ASSETS	65 676	68 965	67 841
CURRENT ASSETS			
Inventories	14 201	19 183	15 756
Trade and other receivables	9 481	9 494	9 494
Loan receivables	52	625	625
Income tax receivable	453	259	158
Cash and cash equivalents	2 796	481	3 557
CURRENT ASSETS	26 984	31 391	29 394
ASSETS	92 660	100 357	97 235
EQUITY AND LIABILITIES			
Owners of the parent company			
Share capital	80	80	80
Reserve for invested unrestricted equity	18 002	18 002	18 002
Translation differences	-181	-8	-151
Retained earnings	6 674	7 500	9 511
Owners of the parent company	24 575	25 574	27 442
Non-controlling interests	-1	-36	71
EQUITY	24 574	25 537	27 512
NON-CURRENT LIABILITIES			
Finance and lease liabilities	22 176	52 640	50 349
Employee benefit obligation	427	422	427
Deferred tax liabilities	0	112	150
NON-CURRENT LIABILITIES	22 603	53 174	50 926
CURRENT LIABILITIES			
Finance and lease liabilities	30 377	5 380	4 742
Other current liabilities	13 175	15 526	12 433
Derivatives	1 759	545	1 461
Income tax liabilities	172	194	161
CURRENT LIABILITIES	45 483	21 646	18 797
Liabilities	68 085	74 819	69 722
EQUITY AND LIABILITIES	92 660	100 357	97 235

Consolidated Statement of Cash Flows, indirect

1000 EUR	1.5.2023-31.7.2023	1.2.2023-31.7.2023	1.5.2022-31.7.2022	1.2.2022-31.7.2022	1.2.2022-31.1.2023
Cash flows from operating activities					
PROFIT/LOSS FOR THE PERIOD	-504	-2 911	-1 076	-2 454	-338
Adjustments to the profit/loss for the period					
Depreciation, amortisation and impairment	1 854	3 776	1 924	3 873	7 757
Financial income and expenses	961	1 876	820	1 588	3 437
Tax on income from operations	-124	-591	38	-239	374
Other adjustments	-1 127	-901	-61	281	-1 051
Adjustments total	1 563	4 160	2 720	5 502	10 517
Working capital changes					
Increase / decrease in inventories	1 118	1 523	-988	-3 708	-394
Increase / decrease in trade and other receivables	872	334	1 036	-1 800	-429
Increase / decrease in trade payables	-1 551	644	-1 213	2 069	-934
			0		
Interest paid	-789	-1 464	-628	-1 200	-2 483
Interest received	32	61	7	10	65
Other financial items	-3	-5	-22	-12	-203
Income taxes paid	-147	-352	-60	-610	-776
Net cash from operating activities	592	1 991	-223	-2 202	5 026
Cash flows from investing activities					
Purchase of tangible and intangible assets	-460	-768	-259	-669	-1 987
Proceeds from sale of tangible and intangible assets	752	864	18	218	245
Disposal of subsidiaries	0	0	0	0	8
Loans granted	0	-9	0	0	-18
Proceeds from repayments of loans	3	8	1	4	21
Addition / deduction of cash equivalents	5	5	0	0	0
Net cash used in investing activities	299	98	-240	-448	-1 731
Cash flows from financing activities					
Proceeds from sale of treasury shares	0	0	0	0	9
Proceeds from current borrowings	0	0	-332	411	0
Repayment of current borrowings	0	0	-4	-6	-6
Addition / deduction of current borrowings	0	0	-6	-2	0
Proceeds from non-current borrowings	0	0	0	0	0
Repayment of non-current borrowings	0	0	1	0	0
Payment of lease liabilities	-1 608	-2 849	-1 279	-2 474	-4 942
Net cash used in financing activities	-1 608	-2 849	-1 621	-2 071	-4 938
Net change in cash and cash equivalents	-717	-761	-2 083	-4 721	-1 644
Cash and cash equivalents, opening amount	3 514	3 557	2 564	5 201	5 201
Net increase/decrease in cash and cash equivalents	-718	-761	-2 083	-4 721	-1 644
Effects of exchange rate fluctuations on cash held	0	0		0	0
	0				
Cash and cash equivalents	2 796	2 796	481	481	3 557
Cash and cash equivalents, other arrangements	0	0	0	0	0

Consolidated statement of changes in equity

1000 EUR	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
EQUITY 1 Feb 2023	80	18 002	-151	9 511	27 442	71	27 512
Comprehensive income							
Profit/loss for the period				-2 841	-2 841	-71	-2 911
Other comprehensive income							
Translation differences	0	0	-30	0	-30	-3	-33
TOTAL COMPREHENSIVE INCOME	0	0	-30	-2 841	-2 871	-74	-2 945
Other changes	0	0	0	4	4	2	6
TOTAL EQUITY 31 July 2023	80	18 002	-181	6 674	24 575	1	24 576

1000 EUR

	Share capital	Reserve for invested unrestricted equity	Translation differences	Accumulated earnings	Total	Non-controlling interests	Total equity
EQUITY 1 Feb 2022	80	18002	-17	9935	28000	-37	27963
Comprehensive income							
Profit/loss for the period				-458	-458	120	-338
Other comprehensive income:							
Translation differences			-133		-133	-13	-147
TOTAL COMPREHENSIVE INCOME			-133	-458	-591	107	-484
Transactions with owners							
Acquisition of treasury shares							
Other changes					23	23	31
Total transactions with owners					23	23	31
Changes in ownership interests in subsidiaries							
Changes of non-controlling interests without change in control					10	10	3
TOTAL EQUITY 31 Jan 2023	80	18002	-151	9510	27442	71	27512

Notes to the condensed consolidated financial statements

1) Reporting entity

These condensed consolidated interim financial statements are the financial statements of a group of companies comprised of HLRE Holding Oyj (formerly HLRE Holding Oy), a Finnish public limited liability company operating under the laws of Finland with business ID 2611405-7 (hereinafter referred to as "HLRE Holding", "the Company" or "the parent company") and its subsidiaries, which are jointly referred to as "HLRE", "HLRE Group" or "the Group". The parent company of the Group is domiciled in Pirkkala, and its registered address is Jasperintie 273, FI-33960 Pirkkala, Finland.

HLRE Group (commonly known as Vesivek Group) is a leading provider of roof and roof product renovations offered primarily to detached and row houses in Finland and Sweden under the brand name Vesivek. In addition to roof and roof product installations, Vesivek provides underground drain renovations in eight locations in Finland. The Group also develops, manufactures, and sells high quality rainwater systems and roof safety products.

2) Basis of preparation

This condensed interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group's annual consolidated financial statements for the financial year ended 31 January 2023, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS and accordingly, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. The accounting policies applied are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the financial year ended 31 January 2023.

The consolidated financial statements are presented as thousands of euros, unless otherwise specified, and the numbers are rounded off to the nearest thousand. Because of this, the sum of individual figures can deviate from the reported total.

This condensed interim report has not been reviewed by the Company's auditors.

3) Seasonality of operations

The Group operates in an industry that sees seasonal changes. In a typical year, the second and third quarter together amount major share of the Group's full-year EBITDA.

Management has reacted to seasonal changes in customer volumes and demand for roof, roof product and underground drain renovations through workforce adjustment and temporary layoffs of installation and white-collar personnel.

4) Segment information and revenue

The Board of Directors of HLRE Holding is the Group's chief operating decision maker, and operating segments have been specified based on the information reviewed by the Board of Directors in order to allocate resources and assess the profitability of business operations. The Board of Directors manages the HLRE Group as a single integrated business aggregate, and therefore HLRE has a single operating and reportable segment.

The revenue of the HLRE Holding Group is primarily generated by roofing, roof product and underground drain renovations for single-family homes and housing companies pursuant to the service concept developed by the Company, as well as project and direct sales of rainwater systems and roof safety products. The entire service chain – product development, manufacturing, sales and installation – is managed in-house by the Group.

The HLRE Holding Group is operating in Finland and Sweden. Small-scale out of total H1 revenue was generated by direct sales of rainwater systems and roof safety products from Vesivek Tuotteet Oy in Finland to Baltic countries and Sweden. No sales to Russia since February 2022. The Swedish turnover was generated by roofing and roof product installations and small-scale by direct sales of rainwater systems and roof safety products:

Breakdown of revenue by country			
1000 EUR	Feb 23 – Jul 23	Feb 22 – Jul 22	Feb 22 – Jan 23
	Q1-Q2	Q1-Q2	Q1-Q4
Finland	43275	49340	107387
Sweden	8513	11056	21389
Baltic countries and Russia	630	281	679
Total	52418	60677	129455

5) Financial liabilities

In February 2021, the Company rearranged its financing, and issued a secured three-year SEK 300 million bond that includes an option of increasing the total loan, when separately agreed conditions are met, by a maximum total of SEK 100 million to a maximum total of SEK 400 million in one or more tranches. The bond is a non-amortizing bullet loan that matures on 12 February 2024 and carries interest at the rate of STIBOR 3 months plus a margin of 6,60 per cent per annum.

The bond involves a leverage covenant (ratio of net debt to EBITDA). The covenant should be equal to or less than 5.00/4.50/4.00 for the first/second/third year from the original issue date of the bond (12 February 2021).

The issuance of additional bonds requires that the Group's ratio of net debt to EBITDA does not exceed 3.00/2.75/2.50 one/two/three years after the original issue of the bond.

The Group complied with the leverage covenant throughout the reporting period. As at 31 July 2023, the leverage ratio was 3,80.

The bond has been listed on the Open Market segment of the Frankfurt Stock Exchange since February 2021. On 8 February 2022 the bond was admitted to trading on the corporate bond segment of Nasdaq Stockholm.

Maturities of contracts of financial liabilities 31 July 2023						
1000 EUR	No more than 12 months	Over 1 year and no more than 2 years	Over 2 years and no more than 5 years	Over 5 years	Total	Book value
Trade payables	5 411				5 411	5 411
Lease liabilities	4 406	3 425	3 054	97	10 982	11 665
Bonds	27 746				27 746	25 734
Shareholder loans	15 976					15 629
Derivatives						1 759

Maturities of contracts of financial liabilities 31 January 2023						
1000 EUR	No more than 12 months	Over 1 year and no more than 2 years	Over 2 years and no more than 5 years	Over 5 years	Total	Book value
Trade payables	5 431				5 431	5 431
Lease liabilities	5 013	3 883	4 593	414	13 904	13 387
Bonds	2 547	26 520			29 067	26 143
Shareholder loans		15 976			15 976	15 308
Derivatives					0	1 461

6) Commitments and contingent liabilities

The following shares have been pledged as collateral for the bond and overdraft facility: HLRE Group Oy, Vesivek Oy, Vesivek Sverige AB and Vesivek Tuotteet Oy (former Nesco Oy).

Furthermore, the following internal loans have been pledged as collateral for the bond agreement:

Loan granted by HLRE Holding Oyj to HLRE Group Oy totaling EUR 11,996,333

Loan granted by HLRE Holding Oyj to Vesivek Oy totaling EUR 1,442,609

Loan granted by HLRE Holding Oyj to Nesco Invest Oy totaling EUR 8,446.71

Loan granted by HLRE Holding Oyj to Vesivek Tuotteet Oy (former Nesco Oy) totaling EUR 4,510,442

The following business mortgages have been confirmed and pledged as collateral for the bond and overdraft facility.

HLRE Group Oy EUR 57,200 thousand

Vesivek Oy EUR 57,200 thousand

Nesco Invest Oy EUR 57,200 thousand

Vesivek Tuotteet Oy (former Nesco Oy) EUR 57,200 thousand

Vesivek Sverige AB SEK 20,000 thousand

The following real estate mortgages have been pledged as collateral for the bond and overdraft facility:

Vesivek Tuotteet Oy(former Nesco Oy) Orimattila production plant EUR 13,673 thousand

Vesivek Oy industrial hall in Lieto EUR 46,800 thousand.

7) Events after reporting date

The agreement of a three-year senior secured bond launched in February 2021 specifies EUR 2 Million Super Senior RCF from Danske Bank Finland maturing 6 months prior to the bond termination date. Based on the agreement, Danske Bank Finland Branch terminated the Super Senior RCF in August 2023.

On 16th of August the managing director of Vesivek Oy and Vesivek Salaojat Oy, Mr. Juha Höyhtyä, was relieved of his duties as managing director effective immediately. His duties were taken over by the Group CEO, Mr. Kimmo Riihimäki. Financial performance of both companies during the ongoing financial period has been behind the targets.

Use of Alternative Performance Measures

Alternative Performance Measures (APM) are financial measures of historical or future financial performance, financial position, or cash flows, other than financial measures defined or specified in the applicable financial reporting framework. HLRE Group reports the financial measures [Gross profit], [Gross margin] and [Adjusted EBITDA] in its quarterly reports, which are not financial measures as defined in IFRS. The Group believes that the alternative performance measures provide significant additional information on HLRE's results of operations, financial position and cash flows. The APMs are used consistently over time and accompanied by comparatives for the previous periods.

Gross profit= Revenues – cost of goods sold

Gross margin (%) = Gross profit in relation to Revenue

EBITDA = Operating profit (EBIT) + Depreciation + Amortization

EBITDA % = EBITDA in relation to Revenue

Adjusted EBITDA = EBITDA - EBITDA Adjustments

Adjusted EBITDA % = (EBITDA - EBITDA Adjustments) / Revenue

Operating profit (EBIT) % = Operating profit in relation to Revenue

EBITDA adjustments = One-offs regarding restructuring costs and other non-recurring costs

