

Company Nordecon AS
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Attachments:

- Nordecon-10001917461-en.pdf (<http://oam.fi.ee/en/download?id=3879>)
- Nordecon-10001917462-en.pdf (<http://oam.fi.ee/en/download?id=3880>)
- Nordecon-10001917464-et.pdf (<http://oam.fi.ee/en/download?id=3881>)
- Nordecon-10001917465-et.pdf (<http://oam.fi.ee/en/download?id=3882>)

Currency

Title 2019 first quarter consolidated interim report (unaudited)

This announcement includes Nordecon AS's consolidated financial statements for the first quarter of 2019 (unaudited), overview of the key events influencing the period's financial result, outlook for the market and description of the main risks.

Interim report is attached to the announcement and is also published on NASDAQ Tallinn and Nordecon's web page (<http://www.nordecon.com/for-investor/financial-reports/interim-reports>).

Period's investor presentation are attached to the announcement and are also published on Nordecon's web page (<http://www.nordecon.com/for-investor/investor-presentations>).

Condensed consolidated interim statement of financial position

EUR '000

As at 31 March 2019 31 December 2018

ASSETS

Current assets

Cash and cash equivalents	5,391	7,678
Trade and other receivables	27,904	31,627
Prepayments	1,700	1,383



Inventories	23,692	20,444
Total current assets	58,687	61,132
Non-current assets		
Investments in equity-accounted investees	1,734	2,266
Other investments	26	26
Trade and other receivables	8,285	8,225
Investment property	5,526	5,526
Property, plant and equipment	16,164	12,288
Intangible assets	14,675	14,674
Total non-current assets	46,410	43,005
TOTAL ASSETS	105,097	104,137

LIABILITIES

Current liabilities

Borrowings	17,318	9,374
Trade payables	32,226	34,954
Other payables	7,013	5,187
Deferred income	3,650	3,932
Provisions	529	1,013
Total current liabilities	60,736	54,460

Non-current liabilities

Borrowings	11,203	14,830
Trade payables	98	98
Other payables	177	71



Provisions	1,111	969
Total non-current liabilities	12,589	15,968
TOTAL LIABILITIES	73,325	70,428

EQUITY

Share capital	16,321	16,321
Own (treasury) shares	-693	-693
Share premium	618	618
Statutory capital reserve	2,554	2,554
Translation reserve	1,948	1,992
Retained earnings	8,934	10,896
Total equity attributable to owners of the parent	29,682	31,688
Non-controlling interests	2,090	2,021
TOTAL EQUITY	31,772	33,709
TOTAL LIABILITIES AND EQUITY	105,097	104,137

Condensed consolidated interim statement of comprehensive income

EUR '000	Q1 2019	Q1 2018	2018
Revenue	34,524	43,662	223,496
Cost of sales	-34,478	-43,209	-213,463
Gross profit	46	453	10,033
Marketing and distribution expenses	-346	-173	-626
Administrative expenses	-1,493	-1,671	-6,725
Other operating income	56	17	1,471



Other operating expenses	-13	-77	-122
Operating loss/profit	-1,750	-1,451	4,031
Finance income	271	135	431
Finance costs	-364	-304	-909
Net finance costs	-93	-169	-478
Share of loss/profit of equity-accounted investees	-50	-63	835
Loss/profit before income tax	-1,893	-1,683	4,388
Income tax expense	0	-200	-567
Loss/profit for the period	-1,893	-1,883	3,821
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	-44	68	-3
Total other comprehensive expense/income	-44	68	-3
TOTAL COMPREHENSIVE EXPENSE/ INCOME	-1,937	-1,815	3,818
Loss/profit attributable to:			
- Owners of the parent	-1,962	-1,806	3,381
- Non-controlling interests	69	-77	440
Loss/profit for the period	-1,893	-1,883	3,821



Total comprehensive expense/income attributable to:

- Owners of the parent	-2,006	-1,738	3,378
- Non-controlling interests	69	-77	440
Total comprehensive expense/income for the period	-1,937	-1,815	3,818

Earnings per share attributable to owners of the parent:

Basic earnings per share (EUR)	-0.06	-0.06	0.11
Diluted earnings per share (EUR)	-0.06	-0.06	0.11

Condensed consolidated interim statement of cash flows

EUR '000	Q1 2019	Q1 2018

Cash flows from operating activities		
Cash receipts from customers	46,964	53,004
Cash paid to suppliers	-43,997	-49,887
VAT paid	-846	-1,350
Cash paid to and for employees	-5,292	-5,206
Income tax paid	-11	0
Net cash used in operating activities	-3,182	-3,439
Cash flows from investing activities		
Paid on acquisition of property, plant and equipment	-43	-66
Proceeds from sale of property, plant and equipment	18	3
Loans provided	-9	-6
Repayment of loans provided	2	3
Dividends received	238	245



Interest received	2	3
Net cash from investing activities	208	182
Cash flows from financing activities		
Proceeds from loans received	1,737	534
Repayment of loans received	-9	-194
Finance lease payments made	-577	-450
Payments for lease liabilities	-251	0
Interest paid	-208	-170
Dividends paid	0	-384
Net cash from/used in financing activities	692	-664
Net cash flow	-2,282	-3,921
Cash and cash equivalents at beginning of period	7,678	8,916
Effect of movements in foreign exchange rates	-5	0
Decrease in cash and cash equivalents	-2,282	-3,921
Cash and cash equivalents at end of period	5,391	4,995

Financial review

Financial performance

Nordecon ended the first quarter of 2019 with a gross profit of 46 thousand euros (Q1 2018: 453 thousand euros). The Group's gross margin for the first quarter was 0.1% (Q1 2018: 1%). Due to the seasonality of the construction business, first-quarter results, particularly in the Infrastructure segment, are affected by a large share of uncovered fixed costs. The Group's first-quarter gross profit was earned in the Buildings segment where the margin improved year on year, rising to 4.5% (Q1 2018: 3.3%). The loss of the Infrastructure segment grew compared to the first quarter of 2018, mainly due to unfavourable weather at the beginning of the year. The challenging weather conditions of the first



two months of 2019 lowered the profitability of national road maintenance contracts: constant temperature changes and higher than average precipitation increased the cost base of all the main inputs.

The Group's administrative expenses for the first quarter of 2019 totalled 1,493 thousand euros. Compared to the same period last year, administrative expenses decreased by around 11% (Q1 2018: 1,671 thousand euros) but the ratio of administrative expenses to revenue (12 months rolling) remained at the same level as a year ago: 3.1% (Q1 2018: 3.1%).

The Group ended the first quarter of 2019 with an operating loss of 1,750 thousand euros (Q1 2018: 1,451 thousand euros). EBITDA was negative at 1,018 thousand euros (Q1 2018: negative at 944 thousand euros).

Finance income and costs of the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets. While the Ukrainian hryvnia strengthened against the euro by 3.6% and the Group recognised an exchange gain of 215 thousand euros (Q1 2018: 62 thousand euros), the Swedish krona weakened against the euro by around 1.7% and the Group recognised an exchange loss of 163 thousand euros (Q1 2018: 123 thousand euros). The period's foreign exchange gain and loss resulted from translating loans provided to the Ukrainian and Swedish subsidiaries in euros into the local currency.

The Group's net loss amounted to 1,893 thousand euros (Q1 2018: 1,883 thousand euros) of which the net loss attributable to owners of the parent, Nordecon AS, was 1,962 thousand euros (Q1 2018: 1,806 thousand euros).

Cash flows

In the first quarter of 2019, operating activities produced a net cash outflow of 3,182 thousand euros (Q1 2018: an outflow of 3,439 thousand euros). Negative operating cash flow is typical of the first quarter and stems from the cyclical nature of the construction business. Larger fixed costs and preparations made for starting more active construction operations in the second quarter, particularly in the Infrastructure segment, cause outflows to exceed inflows. Operating cash flow continues to be strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments while the Group has to make prepayments to subcontractors, materials suppliers, etc. Cash inflow is also lowered by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only. The Group has concluded a frame agreement for reverse factoring which enables our subcontractors that do not have sufficient credit standing to obtain a factoring facility from a financing institution to use our facility.

Investing activities resulted in a net cash inflow of 208 thousand euros (Q1 2018: an inflow of 182 thousand euros). The largest items were payments for the acquisition of property, plant and equipment of 43 thousand euros (Q1 2018: 66 thousand euros) and dividends received of 238 thousand euros (Q1 2018: 245 thousand euros).



Financing activities generated a net cash inflow of 692 thousand euros (Q1 2018: an outflow of 664 thousand euros). The largest items were loan, right of use and finance lease payments. Proceeds from loans received amounted to 1,737 thousand euros, consisting of development loans and overdrafts used (Q1 2018: 534 thousand euros). Loan repayments totalled 9 thousand euros (Q1 2018: 194 thousand euros) and finance lease payments amounted to 577 thousand euros (Q1 2018: 450 thousand euros). In connection with a change in lease accounting policies according to which operating lease liabilities that used to be accounted for off the statement of financial position are recognised as borrowings as from 1 January 2019, payments related to such leases are reported in cash flows from financing activities. Relevant right of use payments of the period totalled 251 thousand euros (see also note 1 Significant accounting policies). Interest payments of the period amounted to 208 thousand euros (Q1 2018: 170 thousand euros). Interest payments have grown in connection with the same change in accounting policies.

At 31 March 2019, the Group's cash and cash equivalents totalled 5,391 thousand euros (31 March 2018: 4,995 thousand euros).

Key financial figures and ratios

Figure/ratio for the period	Q1 2019	Q1 2018	Q1 2017	2018
Revenue (EUR '000)	34,524	43,662	41,604	223,496
Revenue change	-20.9%	4.9%	50.0%	-3.4%
Net loss/profit (EUR '000)	-1,893	-1,883	-1,086	3,821
Net loss/profit attributable to owners of the parent (EUR '000)	-1,962	-1,806	-1,087	3,381
Average number of shares	31,528,585	30,913,031	30,756,728	31,528,585
Earnings per share (EUR)	-0.06	-0.06	-0.04	0.11
Administrative expenses to revenue	4.3%	3.8%	3.5%	3.0%
Administrative expenses to revenue (rolling)	3.1%	3.1%	3.2%	3.0%
EBITDA (EUR '000)	-1,018	-944	-503	6,021



EBITDA margin	-2.9%	-2.2%	-1.2%	2.7%
Gross margin	0.1%	1.0%	1.5%	4.5%
Operating margin	-5.1%	-3.3%	-2.4%	1.8%
Operating margin excluding gain on asset sales	-5.2%	-3.3%	-2.4%	1.3%
Net margin	-5.5%	-4.3%	-2.6%	1.7%
Return on invested capital	-2.9%	-2.6%	-1.5%	8.4%
Return on equity	-5.8%	-5.0%	-2.9%	11.2%
Equity ratio	30.2%	31.1%	35.6%	32.4%
Return on assets	-1.8%	-1.9%	-1.1%	3.5%
Gearing	38.4%	35.3%	29.3%	28.5%
Current ratio	0.97	1.01	1.01	11.2

As at	31 March 2019	31 March 2018	31 March 2017	31 Dec 2018
Order book (EUR '000)	170,509	143,589	130,109	100,352

Performance by geographical market

The contribution of the Group's foreign markets has remained stable. In the first quarter of 2019, revenue earned outside Estonia accounted for 10% (Q1 2018: 8%) of our total revenue.

	Q1 2019	Q1 2018	Q1 2017	2018
Estonia	90%	92%	91%	93%
Ukraine	5%	3%	1%	4%
Finland	4%	1%	2%	1%
Sweden	1%	4%	6%	2%

The share of the Group's Ukrainian revenues grew compared to the same period last year. In Ukraine, we are providing general contractor's services under two building construction contracts. The share of Swedish revenues decreased year



on year. During the period, we provided services under one construction contract secured as a general contractor. Our Finnish revenues resulted from concrete works in the building construction segment.

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

Performance by business line

Segment revenues

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) as balanced as possible because this helps to diversify risks and provides better opportunities for continuing construction operations in more challenging market conditions where the volumes of one or several sub-segments decline substantially.

In the first quarter of 2019, Nordecon generated revenue of 34,524 thousand euros, roughly 20.9% less than in the same period last year when revenue amounted to 43,662 thousand euros. The decline was sharper in the Buildings segment where revenue dropped by 24%. The fall in first-quarter revenue is attributable to longer than usual decision-making processes between the submission of bids and signature of contracts in public procurements carried out in the second half of 2018 and longer than expected preparatory processes of some contracts signed with private sector customers. We highlighted the matters already in our annual report for 2018. However, based on the Group's order book and known developments in our chosen markets, we expect that in 2019 the Group's business volumes will grow somewhat compared to 2018.

The limited volume of infrastructure construction projects, which is affecting the entire Estonian construction market, is also reflected in our revenue structure. In the first quarter of 2019, our Buildings and Infrastructure segments generated revenue of 28,638 thousand euros and 5,791 thousand euros respectively. In the same period last year, the corresponding figures were 37,616 thousand euros and 5,941 thousand euros.

Operating segments	Q1 2019	Q1 2018	Q1 2017	2018
Buildings	82%	86%	89%	72%
Infrastructure	18%	14%	11%	28%

Sub-segment revenues

Due to the overall revenue decline, the revenues of all sub-segments decreased year on year.



Similarly to previous periods, the largest revenue source in the Buildings segment was the commercial buildings sub-segment. The period's largest projects in progress included the reconstruction and extension of the building of Terminal D in the Old City harbour, the construction of a multi-storey car park at Sepapaja 1 and the design and construction of an eight-floor accommodation building at Liimi 1B in Tallinn.

A significant share of the Group's Estonian apartment building construction projects is located in Tallinn. During the period, the largest of them were located at Lesta 10, Sammu 6 and Valge 16. Sweden, where we are delivering construction services in a housing development project and have started the design work in two new projects, continues to make a strong contribution to the sub-segment's revenue. An apartment building in phase III of the Sõjakooli project was delivered to the customer on schedule.

We continued work on our own housing development projects in Tallinn and Tartu (reported in the apartment buildings sub-segment). In Tallinn, we completed a four-floor apartment building with 21 apartments at Nõmme tee 97 (www.nommetee.ee (<http://www.nommetee.ee>)) and began preparing for the construction of a new five-floor apartment building with 24 apartments at Võidu jooksu 8c (www.voidujooksu.ee). In Tartu, we continued to build three apartment buildings with 10 apartments each at Aruküla tee (www.kaldakodu.ee (<http://www.kaldakodu.ee>)). Our own housing developments did not generate revenue in the period under review (Q1 2018: 1,638 thousand euros). The delivery of apartments in the development in Nõmme tee will begin in the second quarter of 2019. In carrying out development activities, we monitor closely potential risks in the housing development market.

Based on the Group's order book, we expect that in 2019 as a whole the revenue of the public buildings sub-segment will increase compared to 2018. During the period, the sub-segment's revenue was strongly influenced by the construction of the Peetri sports and leisure centre in Rae parish and an assembly area at the Defence Forces' base at Tapa. The Estonian Academy of Security Sciences building in Tallinn was delivered to the customer on schedule.

The largest projects in the industrial and warehouse facilities sub-segment were the construction of a warehouse and office building at Kaldase tee in Maardu and the reconstruction (phase V) of the fattening unit of a pig farm of Rakvere Farmid AS (EKSEKO). Compared to earlier periods, the share of orders placed by the agricultural sector has decreased significantly, which is one of the reasons for the sub-segment's revenue decline.

Revenue breakdown in the Buildings segment	Q1 2019	Q1 2018	Q1 2017	2018
Commercial buildings	39%	38%	26%	35%
Apartment buildings	30%	25%	33%	25%



Public buildings	21%	23%	28%	25%
Industrial and warehouse facilities	10%	14%	13%	15%

We do not expect any major changes in the revenue breakdown of the Infrastructure segment in 2019. The segment will continue to be dominated by road construction and maintenance despite the fact that in the first quarter the contribution of other engineering grew. During the period, a major share of the revenue of the road construction and maintenance sub-segment resulted from construction contracts secured in 2018: the construction of roads and bridges for the Defence Forces' central training area in Kuusalu parish and different smaller-scale forest road improvement services provided to the State Forest Management Centre. We continued to render road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

We continued earthworks on the Kiili-Paldiski section of the onshore part of the Balticconnector gas pipeline that accounted for a significant share of the revenue of the other engineering sub-segment.

Revenue breakdown in the Infrastructure segment	Q1 2019	Q1 2018	Q1 2017	2018
Road construction and maintenance	65%	85%	82%	89%
Other engineering	33%	12%	10%	7%
Environmental engineering	2%	3%	8%	4%

Order book

At 31 March 2019, the Group's order book (backlog of contracts signed but not yet performed) stood at 170,509 thousand euros, an increase of roughly 18% compared to a year ago. In the first quarter of 2019, we signed new contracts of 92,556 thousand euros (Q1 2018: 22,275 thousand euros).

	31 March 2019	31 March 2018	31 March 2017	31 Dec 2018
Order book (EUR '000)	170,509	143,589	130,109	100,352

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 86% and 14% of the Group's total order book respectively (31 March 2018: 68% and 32% respectively). Compared to 31 March 2018, the order book of the Buildings segment has increased by 50% and the order book of the Infrastructure segment has decreased by 49%.

The order books of the commercial buildings, public buildings and apartment buildings sub-segments account for an equal share, approximately a third each, of the order book of the Buildings segment. The order books of those sub-segments have grown significantly compared to the same period last year. In the commercial buildings sub-segment, the largest projects in progress are in



Tallinn: the reconstruction and extension of the building of Terminal D in the Old City Harbour and the construction of an office complex consisting of a three- and a five-floor building on the corner of Suur-Patarei and Jahu streets, a multi-storey car park at Sepapaja 1 and a new seven-floor commercial building in Rotermann City. In addition, we have signed a contract for the design and construction of a multi-storey car park for Tartu University Hospital in Tartu. The order book of the apartment buildings sub-segment includes contracts for the construction of apartment buildings in Tallinn, and contracts for the construction of two apartment buildings in Sweden that were signed during the reporting period. A major share of the order book of the public buildings sub-segment is made up of contracts signed at the beginning of 2019 for the construction of the Estonian Academy of Security Sciences and the University of Tartu Training Centre in Narva, a sports and health centre at Kohtla-Järve and an assembly area at the Defence Forces' base at Tapa. The order book of the industrial and warehouse facilities sub-segment has decreased substantially.

The order book of the Infrastructure segment continues to be underpinned by contracts of the road construction and maintenance sub-segment which account for around 72% of the Infrastructure segment's order book. The largest projects in the road construction order book are the construction of the Veskitammi intersection in Laagri, near Tallinn, passing lanes for a 2+1 road on the Pikknurme-Puurmani section (km 142.2-146.9) of the Tallinn-Tartu-Võru-Luhamaa road, and roads and bridges for the Defence Forces' central training area in Kuusalu parish. The Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. We also continue to provide earthwork services on the Kiili-Paldiski section of the onshore part of the Balticconnector gas pipeline.

Based on the size of the Group's order book and known developments in our chosen markets, we expect that in 2019 the Group's revenue will grow slightly compared to 2018. In an environment of exceptionally stiff competition, we avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Despite this, where suitable opportunities arise, we strive to increase the portfolio to counteract the pressure on margins that is caused by the market situation. Our preferred policy is to keep fixed costs under control and monitor market developments closely.

Between the reporting date (31 March 2019) and the date of release of this report, Group companies have secured additional construction contracts in the region of 20,552 thousand euros, a major share of which is made up of contracts of the Infrastructure segment.

People

Employees and personnel expenses

In Q1 2019, the Group (the parent and the subsidiaries) employed, on average, 662 people including 391 engineers and technical personnel (ETP). Headcount dropped by around 4% compared to the first quarter of 2018.



Average number of employees at Group entities

	Q1 2019	Q1 2018	Q1 2017	2018
ETP	391	427	413	419
Workers	271	264	303	268
Total average	662	691	716	687

The Group's personnel expenses for the first quarter of 2019, including all taxes, totalled 5,363 thousand euros. In the first quarter of 2018, personnel expenses amounted to 4,943 thousand euros. Personnel expenses grew by around 8% through a rise in wages and salaries.

The service fees of the members of the council of Nordecon AS for the first quarter of 2019 amounted to 47 thousand euros and associated social security charges totalled 15 thousand euros (Q1 2018: 47 thousand euros and 15 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 123 thousand euros and associated social security charges totalled 42 thousand euros (Q1 2018: 232 thousand euros and 77 thousand euros respectively). The figures for the first quarter of 2018 included termination benefits of 93 thousand euros paid to a member of the board and associated social security charges of 31 thousand euros.

Labour productivity and labour cost efficiency

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

	Q1 2019	Q1 2018	Q1 2017	2018
Nominal labour productivity (rolling), (EUR '000)	315.5	320.4	281.9	325.4
Change against the comparative period, %	-1.5%	13.7%	30.4%	3.3%
Nominal labour cost efficiency (rolling), (EUR)	9.2	10.0	9.5	9.7
Change against the comparative period, %	-8.4%	5.4%	20.7%	-3.8%

The Group's nominal labour productivity and labour cost efficiency declined compared to the first quarter of 2018 due to a decrease in revenue and growth in



personnel expenses.

Nordecon (www.nordecon.com (<http://www.nordecon.com>)) is a group of construction companies whose core business is construction project management and general contracting in the buildings and infrastructures segment. Geographically the Group operates in Estonia, Ukraine, Finland and Sweden. The parent of the Group is Nordecon AS, a company registered and located in Tallinn, Estonia. The consolidated revenue of the Group in 2018 was 223 million euros. Currently Nordecon Group employs close to 660 people. Since 18 May 2006 the company's shares have been quoted in the main list of the NASDAQ Tallinn Stock Exchange.

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