

Company Nordecon AS
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Attachments:

- Nordecon-10002921821-en.pdf (<http://oam.fi.ee/en/download?id=4139>)
- Nordecon-10002921822-en.pdf (<http://oam.fi.ee/en/download?id=4140>)
- Nordecon-10002921824-et.pdf (<http://oam.fi.ee/en/download?id=4141>)
- Nordecon-10002921825-et.pdf (<http://oam.fi.ee/en/download?id=4142>)

Currency

Title 2019 III quarter and 9 months consolidated interim report (unaudited)

This announcement includes Nordecon AS's consolidated financial statements for the third quarter and nine months of 2019 (unaudited) and overview of the key events influencing the period's financial result.

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	30 September 2019	31 December 2018

ASSETS		
Current assets		
Cash and cash equivalents	8,630	7,678
Trade and other receivables	42,128	31,627
Prepayments	3,656	1,383
Inventories	20,355	20,444
Total current assets	74,769	61,132



Non-current assets		
Investments in equity-accounted investees	2,406	2,266
Other investments	26	26
Trade and other receivables	8,394	8,225
Investment property	5,526	5,526
Property, plant and equipment	16,114	12,288
Intangible assets	14,665	14,674
Total non-current assets	47,131	43,005
TOTAL ASSETS	121,900	104,137
LIABILITIES		
Current liabilities		
Borrowings	17,243	9,374
Trade payables	52,258	34,954
Other payables	8,176	5,187
Deferred income	2,577	3,932
Provisions	444	1,013
Total current liabilities	80,698	54,460
Non-current liabilities		
Borrowings	8,569	14,830
Trade payables	98	98
Other payables	177	71
Provisions	812	969
Total non-current liabilities	9,656	15,968



TOTAL LIABILITIES	90,354	70,428
EQUITY		
Share capital	14,379	16,321
Own (treasury) shares	-660	-693
Share premium	635	618
Statutory capital reserve	2,554	2,554
Translation reserve	1,215	1,992
Retained earnings	11,537	10,896
Total equity attributable to owners of the parent	29,660	31,688
Non-controlling interests	1,886	2,021
TOTAL EQUITY	31,546	33,709
TOTAL LIABILITIES AND EQUITY	121,900	104,137

Condensed consolidated interim statement of comprehensive income

EUR '000	9M 2019	Q3 2019	9M 2018	Q3 2018	2018
Revenue	172,237	71,796	167,588	61,930	223,496
Cost of sales	-164,516	-67,369	-160,900	-58,441	-213,463
Gross profit	7,721	4,427	6,688	3,489	10,033
Marketing and distribution expenses	-635	-137	-470	-139	-626
Administrative expenses	-4,668	-1,620	-4,977	-1,591	-6,725
Other operating income	128	61	1,225	1,005	1,471
Other operating expenses	-48	-28	-74	3	-122



Operating profit	2,498	2,703	2,392	2,767	4,031
Finance income	1,215	720	241	-144	431
Finance costs	-1,006	-343	-741	-155	-909
Net finance income/costs	209	377	-500	-299	-478
Share of profit of equity-accounted investees	622	370	844	392	835
Profit before income tax	3,329	3,450	2,736	2,860	4,388
Income tax expense	-453	0	-582	-182	-567
Profit for the period	2,876	3,450	2,154	2,678	3,821
Other comprehensive income Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	-777	-514	102	162	-3
Total other comprehensive expense/income	-777	-514	102	162	-3
TOTAL COMPREHENSIVE INCOME	2,099	2,936	2,256	2,840	3,818
Profit attributable to:					
- Owners of the parent	2,532	3,325	1,972	2,504	3,381
- Non-controlling interests	344	125	182	174	440
Profit for the period	2,876	3,450	2,154	2,678	3,821



Total comprehensive income
attributable to:

- Owners of the parent	1,755	2,811	2,074	2,666	3,378
- Non-controlling interests	344	125	182	174	440

Total comprehensive income for
the period

2,099	2,936	2,256	2,840	3,818
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Earnings per share attributable
to owners of the parent:

Basic earnings per share (EUR)	0.08	0.10	0.06	0.08	0.11
Diluted earnings per share (EUR)	0.08	0.10	0.06	0.08	0.11

Condensed consolidated interim statement of cash flows

EUR '000	9M 2019	9M 2018
Cash flows from operating activities		
Cash receipts from customers	193,567	201,839
Cash paid to suppliers	-165,291	-171,860
VAT paid	-4,606	-5,892
Cash paid to and for employees	-17,332	-16,764
Income tax paid	-149	-582
Net cash from operating activities	6,189	6,741
Cash flows from investing activities		
Paid on acquisition of property, plant and equipment	-216	-384
Proceeds from sale of property, plant and equipment	215	22
Loans provided	-14	-22



Repayment of loans provided	9	10
Dividends received	489	249
Interest received	6	8
Net cash from/used in investing activities	489	-117
Cash flows from financing activities		
Proceeds from loans received	3,036	1,916
Repayment of loans received	-3,245	-3,513
Finance lease payments made	-1,532	-1,365
Settlements of lease liability	-868	0
Interest paid	-744	-588
Dividends paid	-2,360	-2,627
Net cash used in financing activities	-5,713	-6,177
Net cash flow	965	447
Cash and cash equivalents at beginning of period	7,678	8,915
Effect of movements in foreign exchange rates	-13	2
Increase in cash and cash equivalents	965	447
Cash and cash equivalents at end of period	8,630	9,364

Financial review

Financial performance

Nordecon ended the first nine months of 2019 with a gross profit of 7,721 thousand euros (9M 2018: 6,688 thousand euros). The Group's gross margin was 4.5% for nine months (9M 2018: 4%) and 6.2% for the third quarter (Q3 2018: 5.6%). In contrast to the gross margin of the Buildings segment, which improved significantly, rising to 5.4% for nine months (9M 2018: 3.4%) and 5.1%



for the third quarter (Q3 2018: 3.7%), the gross margin of the Infrastructure segment moved in the opposite direction, decreasing substantially. The Infrastructure segment's nine-month gross margin was 4.0% (9M 2018: 6.7%) and third-quarter gross margin was 9.2% (Q3 2018: 10.1%). The Infrastructure segment is mainly involved in the performance of road construction and maintenance contracts. Road construction, which is capital intensive, requires a certain critical amount of work to cover its fixed costs, the largest share of which is made up of expenses related to asphalt production and laying equipment. The road maintenance result is mainly influenced by the weather. Exceptionally challenging weather conditions in the first two months of 2019 had an adverse impact on the profitability of national road maintenance contracts. The average cost of new road construction projects put out to tender in 2019 has decreased compared to 2018, which, in turn, has increased the number of bidders. Also, the gap between contractors' asphalt concrete production capacity and market demand has widened: according to estimates, production capacity exceeds demand by at least 25%. All this has had a negative impact on bid prices and the Group has not been sufficiently successful in winning public road construction contracts. The Group's administrative expenses for the first nine months of 2019 totalled 4,668 thousand euros. Compared to the same period last year, administrative expenses decreased by around 6% (9M 2018: 4,977 thousand euros) and the ratio of administrative expenses to revenue (12 months rolling) dropped to 2.8% (9M 2018: 2.9%).

The Group ended the first nine months of 2019 with an operating profit of 2,498 thousand euros (9M 2018: 2,392 thousand euros). EBITDA amounted to 4,732 thousand euros (9M 2018: 3,879 thousand euros).

Finance income and costs of the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets. The Ukrainian hryvnia strengthened against the euro by around 20% and the Group recognised an exchange gain of 1,040 thousand euros (9M 2018: 29 thousand euros) on the translation of the loans provided to the Ukrainian subsidiaries in euros. The Swedish krona, on the other hand, weakened against the euro by around 4% and the Group recognised an exchange loss of 258 thousand euros (9M 2018: 124 thousand euros) on the translation of a loan provided to the Swedish subsidiary in euros.

The Group earned a net profit of 2,876 thousand euros (9M 2018: 2,154 thousand euros) of which the net profit attributable to owners of the parent, Nordecon AS, was 2,532 thousand euros (9M 2018: 1,972 thousand euros).

Cash flows

Operating activities of the first nine months of 2019 produced a net cash inflow of 6,189 thousand euros (9M 2018: 6,741 thousand euros). The key factor that affects operating cash flow is the mismatch between customers' and suppliers' settlement terms. Cash flow is also strongly influenced by the fact that the contracts signed with both public- and private-sector customers do not require the customer to make advance payments while the Group has to make prepayments to subcontractors, materials suppliers, etc. Cash inflow is also reduced by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities resulted in a net cash inflow of 489 thousand euros (9M



2018: an outflow 117 thousand euros). The largest items were amounts paid for the acquisition of property, plant and equipment of 216 thousand euros (9M 2018: 384 thousand euros) and proceeds from sales of property, plant and equipment of 215 thousand euros (9M 2018: 22 thousand euros). Dividends received amounted to 489 thousand euros (9M 2018: 249 thousand euros).

Financing activities generated a net cash outflow of 5,713 thousand euros (9M 2018: 6,177 thousand euros). The largest items were loan, finance lease and dividend payments. Proceeds from loans received totalled 3,036 thousand euros, comprising development loans and overdrafts used (9M 2018: 1,916 thousand euros). Loan repayments totalled 3,245 thousand euros (9M 2018: 3,513 thousand euros), consisting of scheduled repayments of long-term investment and development loans. Finance lease payments totalled 1,532 thousand euros (9M 2018: 1,365 thousand euros). Dividends paid amounted to 2,360 thousand euros (9M 2018: 2,627 thousand euros).

At 30 September 2019, the Group's cash and cash equivalents totalled 8,630 thousand euros (30 September 2018: 9,364 thousand euros).

Key financial figures and ratios

Figure/ratio for the period	9M 2019	9M 2018	9M 2017	2018
Revenue (EUR '000)	172,237	167,588	174,909	223,496
Revenue change	2.8%	-4.2%	30.9%	-3.4%
Net profit (EUR '000)	2,876	2,154	2,716	3,821
Net profit attributable to owners of the parent (EUR '000)	2,532	1,972	2,978	3,381
Weighted average number of shares	30,986,585	30,986,585	30,913,031	31,528,585
Earnings per share (EUR)	0.08	0.06	0.10	0.11
Administrative expenses to revenue	2.7%	3.0%	3.1%	3.0%
Administrative expenses to revenue (rolling)	2.8%	2.9%	3.0%	3.0%
EBITDA (EUR '000)	4,732	3,879	2,419	6,021
EBITDA margin	2.7%	2.3%	1.4%	2.7%
Gross margin	4.5%	4.0%	3.9%	4.5%



Operating margin	1.5%	1.4%	0.5%	1.8%
Operating margin excluding gain on asset sales	1.4%	0.8%	0.5%	1.3%
Net margin	1.7%	1.3%	1.6%	1.7%
Return on invested capital	5.8%	5.4%	6.5%	8.4%
Return on equity	8.8%	6.4%	7.2%	11.2%
Equity ratio	25.9%	28.6%	29.3%	32.4%
Return on assets	2.5%	1.9%	2.4%	3.5%
Gearing	30%	29.1%	31.6%	28.5%
Current ratio	0.93	0.96	1.04	1.12
As at	30 Sept 2019	30 Sept 2018	30 Sept 2017	31 Dec 2018

Order book (EUR '000)	196,493	131,953	142,553	100,352

Performance by geographical market

In the first nine months of 2019, the contribution of the Group's foreign markets increased compared to the same period last year, rising to around 9% of total revenue.

	9M 2019	9M 2018	9M 2017	2018

Estonia	91%	94%	95%	93%
Finland	4%	1%	1%	1%
Sweden	3%	2%	3%	2%
Ukraine	2%	3%	1%	4%

It is worth noting that the share of revenue earned in Finland has increased. Based on nine-month results and our Finnish order book, where the largest project is a subcontract for supplying concrete constructions for the Raitinkartano commercial and residential building, in 2019 our Finnish revenues will be the largest ever. The Group's Swedish revenue has also grown year on year, underpinned by two new general construction contracts secured in 2019. The contribution of the Ukrainian market where we are currently providing general contractor's services under two building construction contracts has decreased



compared to the same period last year.

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 affect our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic targets.

Performance by business line

Segment revenues

In the first nine months of 2019, Nordecon generated revenue of 172,237 thousand euros, roughly 3% more than in the same period last year when revenue amounted to 167,588 thousand euros. Revenue grew in both the Buildings and the Infrastructure segment, by 2% and 6% respectively. In the light of the Group's order book, revenue growth met expectations.

The limited volume of infrastructure projects, which is affecting the entire Estonian construction market, is also reflected in our revenue structure. In the first nine months of 2019, our Buildings and Infrastructure segments generated revenue of 122,825 thousand euros and 49,138 thousand euros respectively. In the same period last year, the corresponding figures were 120,766 thousand euros and 46,454 thousand euros (see note 8).

Operating segments	9M 2019	9M 2018	9M 2017	2018
Buildings	70%	71%	75%	72%
Infrastructure	30%	29%	25%	28%

Sub-segment revenues

The largest revenue source in the Buildings segment continues to be the commercial buildings sub-segment. The period's largest projects were the reconstruction and extension of the building of Terminal D in the Old City Harbour, the construction of phase I of the Porto Franco commercial and office development next to the Admiralty Basin and a multi-storey car park at Sepapaja 1, and the design and construction of an eight-floor accommodation building at Liimi 1B and a concrete frame for an eight-floor car park and commercial building at Tammsaare tee 92 in Tallinn.

Based on the Group's order book, we expect that in 2019 the revenue of the public buildings sub-segment will increase compared to 2018. The sub-segment's revenue for the period was influenced the most by the construction of the Peetri sports and leisure centre in Rae parish and a state upper secondary school at Kohtla-Järve. The state's investments in national defence also continue to play an important role. During the period, we continued to build an assembly area at the defence forces' base at Tapa and a barracks for 300 people at the defence forces' base at Jõhvi. The buildings of the Estonian Academy of Security Sciences in Tallinn and Kohtla-Järve state upper secondary school were delivered to the customer on schedule.



A significant share of the Group's Estonian apartment building projects is located in Tallinn and its immediate vicinity. During the period, the largest of them were located at Lesta 10, Sammu 6 and Valge 16. Sweden, where we are providing services under three housing development contracts, also continues to influence the sub-segment's revenue. Apartment buildings in phases III and IV of the Sõjakooli project and at Lesta 10 were delivered to the customer on schedule.

We continue to carry out our own housing development projects in Tallinn and Tartu (reported in the apartment buildings sub-segment). During the period, we completed a four-floor apartment building with 21 apartments at Nõmme tee 97 in Tallinn and three apartment buildings with 10 apartments each at Aruküla tee in Tartu. Work continues on a five-floor apartment building with 24 apartments at Võidu jooksu 8c in Tallinn (www.voidujooksu.ee (<http://www.voidujooksu.ee/>)). During the period, our own housing developments generated revenue of 6,388 thousand euros (9M 2018: 5,566 thousand euros). In conducting real estate development activities, we monitor closely potential risks in the housing development market.

The largest projects in the industrial and warehouse facilities sub-segment are the construction of a warehouse and office building at Kaldase tee in Maardu, the reconstruction (phase V) of the fattening unit of a pig farm of Rakvere Farmid AS (EKSEKO) and the construction of micro-warehouses in Betooni street in Tallinn. Compared to previous periods, the share of contracts signed with 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 9M 2019 9M 2018 9M 2017 2018

	9M 2019	9M 2018	9M 2017	2018
Commercial buildings	35%	36%	24%	35%
Apartment buildings	30%	22%	31%	25%
Public buildings	28%	27%	22%	25%
Industrial and warehouse facilities	7%	15%	23%	15%

We do not expect revenue breakdown in the Infrastructure segment to change significantly in 2019. The segment will continue to be dominated by road construction and maintenance despite the fact that the contribution of other engineering work has grown. During the period, a major share of the revenue of the road construction and maintenance sub-segment resulted from contracts secured in 2018: the construction of passing lanes on the Pikknurme-Puurmani section of the Tallinn-Tartu-Võru-Luhamaa road (a 2+1 road section) and roads and bridges for the defence forces' central training area in Kuusalu parish. The strongest revenue contributors among contracts secured in 2019 were two large projects: one for the construction of the Missokülä-Hindsa section (8 km) and the Misso small town section (2 km) of main road no. 7 (Riga-Pskov) and the other for the construction of the Kernu bypass, and the Kernu filling station and Haiba junctions. A significant share of the sub-segment's revenue results from forest road improvement services provided to the State Forest Management



Centre. The Group also continues to provide road maintenance services in Järva and Hiiumaa counties and the Kose maintenance area in Harju county. During the period, the Group continued earthworks on the Kiili-Paldiski section of the onshore part of Balticconnector (a gas pipeline between Estonia and Finland) that generated a major share of other engineering revenue. The sub-segment's revenue is also influenced by the construction of foundations for 73 wind turbines in the Nysäter wind farm being built in northern Sweden, near Sundsvall.

Revenue breakdown in the Infrastructure segment	9M 2019	9M 2018	9M 2017	2018
Road construction and maintenance	81%	91%	84%	89%
Other engineering	16%	6%	12%	7%
Environmental engineering	3%	3%	4%	4%

Order book

At 30 September 2019, the Group's order book (backlog of contracts signed but not yet performed) stood at 196,493 thousand euros, an increase of 49% year on year. In the third quarter of 2019, we signed new contracts of 69,894 thousand euros (Q3 2018: 61,761 thousand euros).

As at	30 Sept 2019	30 Sept 2018	30 Sept 2017	31 Dec 2018
Order book (EUR '000)	196,493	131,953	142,553	100,352

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 80% and 20% of the Group's total order book respectively (30 September 2018: 73% and 27% respectively). Compared to 30 September 2018, the order book of the Buildings segment has increased by around 65% and that of the Infrastructure segment by around 6%.

In the Buildings segment, the largest order books are those of the commercial and the public buildings sub-segments, which account for 29% and 27% of the of the segment's order book respectively. Besides the above, the order book of the industrial and warehouse facilities sub-segment has also grown considerably compared to the same period last year. The order book of the apartment buildings sub-segment has decreased slightly year on year. In the commercial buildings sub-segment, the largest projects in progress are mostly in Tallinn: the construction of a new seven-floor commercial building in Rotermann City and phase I of the Porto Franco development as well as the design and construction of a concrete load-bearing structure for an office building and multi-storey car park at Veskiposti 2. A large part 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 a storage area at the defence forces' base at Tapa, and the reconstruction and extension of a research and academic building of Tallinn University of



Technology at Mäepealse 3. The order book of the apartment buildings sub-segment includes contracts for the construction of apartment buildings in Tallinn and its immediate vicinity. At the beginning of 2019 we were also awarded contracts for the construction of two apartment buildings in Sweden: one near Uppsala city centre and the other in the Bromma district in Stockholm.

For a long time, the order book of the Infrastructure segment was dominated by contracts secured by the road construction and maintenance sub-segment. However, in the reporting period the structure of the segment's order book changed significantly. At the reporting date, other engineering contracts accounted for roughly a half of the order book of the Infrastructure segment. A major share of the order book of the other engineering sub-segment is made up of a contract secured in the third quarter for the construction of foundations for 73 wind turbines in the Nysäter wind farm in northern Sweden, near Sundsvall. The other half of the Infrastructure order book is made up of contracts awarded to the road construction and maintenance sub-segment whose largest projects include a contract secured in the second quarter of 2019 for building the Kernu bypass and the Kernu filling station and Haiba junctions on the Tallinn-Pärnu-Ikla road and roads in the target area of the defence forces' central training area. The Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose.

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 (30 September 2019) and the date of release of this report, Group companies have secured additional construction contracts in the region of 58,238 thousand euros.

People

Employees and personnel expenses

In the first nine months of 2019, the Group (the parent and the subsidiaries) employed, on average, 689 people including 413 engineers and technical personnel (ETP). Headcount decreased by around 1% compared to the same period last year.

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

	9M 2019	9M 2018	9M 2017	2018
ETP	413	425	425	419
Workers	276	272	314	268



Total average 689 697 739 687

The Group's personnel expenses for the first nine months of 2019, including all taxes, totalled 17,772 thousand euros. In the same period last year, personnel expenses amounted to 16,820 thousand euros. Despite a decline in the number of staff, personnel expenses grew by around 5.7% year on year. Due to a persisting shortage of qualified and experienced labour, employers are under strong pressure to increase wages and salaries.

The service fees of the members of the council of Nordecon AS for the first nine months of 2019 amounted to 140 thousand euros and associated social security charges totalled 46 thousand euros (9M 2018: 140 thousand euros and 46 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 356 thousand euros and associated social security charges totalled 117 thousand euros (9M 2018: 536 thousand euros and 177 thousand euros respectively). The figures for the first nine months of 2018 include termination benefits of 180 thousand euros paid to a member of the board and associated social security charges of 60 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:

	9M 2019	9M 2018	9M 2017	2018
Nominal labour productivity (rolling), (EUR '000)	335.0	318.6	308.1	325.4
Change against the comparative period, %	5.1%	3.4%	25.7%	3.3%
Nominal labour cost efficiency (rolling), (EUR)	9.5	9.6	10.3	9.7
Change against the comparative period, %	-0.6%	-6.7%	24.8%	-3.8%

The Group's nominal labour productivity increased year on year, mostly in connection with revenue growth. At the same time, nominal labour cost efficiency decreased because the rise in personnel expenses outpaced revenue growth.

Nordecon (www.nordecon.com (<http://www.nordecon.com/>)) is a group of construction companies whose core business is construction project management and general contracting in the buildings and infrastructures segment. Geographically the Group operates in Estonia, 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 690 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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