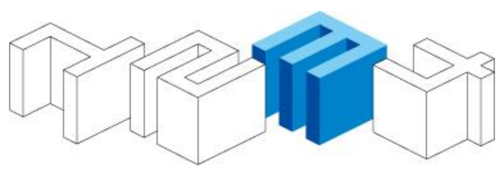
NORDECON

Financial report for the third quarter and nine months of 2017

(unaudited)



Financial report for the third quarter and nine months of 2017 (unaudited)

Business name	Nordecon AS
Registration number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
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 2017 – 31 December 2017
Reporting period	1 January 2017 – 30 September 2017
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Erkki Suurorg (acting chairman of the board), Priit Luman, Maret Tambek, Ando Voogma
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. We have gradually extended our offering with activities which support the core business such as 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, landfill sites, utility networks and port facilities. In addition, we build concrete structures, lease out heavy construction equipment, and provide road maintenance services.

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

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry and has been awarded international quality management certificate ISO 9001, international environment management certificate ISO 14001 and international occupational health and safety certificate OHSAS 18001.

Nordecon AS's shares have been listed on the NASDAQ OMX 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 our customers 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

We are professional builders – we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead; we successfully combine our extensive industry experience with the opportunities provided by innovation.

Reliability

We are reliable partners – we keep our promises and do not take risks at the expense of our customers. Together, we can overcome any construction challenge and achieve the best possible results.

Openness

We act openly and transparently. We observe best practice in the construction industry and uphold and promote it in society as a whole.

Employees

We support employee development through needs-based training and career opportunities consistent with their experience. We value our people and provide them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Directors’ report

Strategic agenda for 2016-2020

The Group’s strategic business agenda and targets for the period 2016-2020

Business activities until 2020

- The Group will grow, mostly organically, with a focus on a more efficient use of its existing resources.
- In Estonia, we will compete in both the building and the infrastructure construction segments.
- Our Estonian entities will be among their segments’ market leaders.
- In Sweden, we will focus on general contracting in Stockholm and the surrounding area.
- In Finland, we will focus on general contracting and concrete works in Helsinki and the surrounding area.
- In Ukraine, we will focus on general contracting, primarily in Kiev and the surrounding area.

Employees until 2020

- We expect the TRI*M Index, which reflects employee satisfaction and commitment, to improve across the Group by 3 percentage points per year on average.
- We value balanced teamwork where youthful energy and drive complement long-term experience.
- We will recognise employees that are dedicated and responsible and contribute to the Group’s success.
- We expect to raise operating profit per employee to at least 12 thousand euros.

Financial targets until 2020

- Revenue will grow by at least 10% per year.
- Foreign markets’ contribution will increase to 25% of revenue.
- Our housing development revenue will account for at least 5% of our Estonian revenue.
- Operating margin for the year will be consistently above 3%.
- We will, on average, distribute at least 30% of profit for the year as dividends.
- Return on invested capital (ROIC) will average 13%.

Changes in the Group’s business operations

Changes in the Group’s Estonian operations

There were no changes in our Estonian operations during the period under review. The Group was involved in building and infrastructure construction, being active in practically all market sub-segments. 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 and AS Eston Ehitus.

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 in the Keila and Kose maintenance areas in Harju county and in Järva and Hiiu counties (Tariston AS).

We did not enter any new operating segments in Estonia.

Changes in the Group’s foreign operations

Ukraine

There were no changes in our Ukrainian operations during the period under review. Our business volumes in Ukraine decreased slightly compared with the first nine months of 2016. The conflict between Ukraine and Russia which broke out at the beginning of 2014, has continued to influence Ukraine’s political and economic environment also in 2017. During the period, our loss from adverse movements in foreign exchange rates amounted to around 0.2 million euros. In recent years, the Group’s bidding activities in Ukraine have been intentionally conservative: we have undertaken work mainly in the capital Kiev and the surrounding area. The ongoing military conflict, 700 km away in eastern Ukraine, has not had a direct impact on our operations, mostly because we right-sized the workforce during earlier periods of recession already and have accepted only such contracts whose risks have been reasonable, considering the circumstances. The situation in the Kiev region and western Ukraine has stabilised, considering the backdrop, and companies have started to adapt to the new environment.

Real estate development activities which require major investment remain suspended to minimise the risks until the situation in Ukraine improves (we have currently stakes in two development projects that have been put on hold). To safeguard their investments and secure their loans, the Group and the co-owners have privatised and created mortgages on the properties owned by the associate V.I. Center TOV.

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 Estcon Oy continued to provide services in the Finnish concrete work segment.

Sweden

There were no significant changes in our Swedish operations during the period under review. The Group’s subsidiary SWENCN AB continued to deliver services under building construction contracts secured as a general contractor. The subsidiary is developing its organisation and carrying out active sales activities in order to win new contracts.

Group structure

The Group’s structure as at 30 September 2017, including interests in subsidiaries and associates*

* The structure does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE, Infra Ehitus OÜ, Kalda Kodu OÜ, Magasini 29 OÜ, Eurocon OÜ, Kastani Kinnisvara OÜ, Eurocon Bud TOV, and Nordecon Statyba UAB and the associates Technopolis-2 TOV and V.I. Center TOV, which currently do not engage in any significant business activities. The first three were established to protect former trade names. Nor does the structure include investments in entities in which the Group’s interest is less than 20%.

Significant changes in Group structure

Merger of subsidiaries

At a meeting held on 14 October 2016, the Group’s council decided to approve the merger of Nordecon AS’s wholly-held subsidiaries Järva Teed AS and Hiiu Teed OÜ and Nordecon AS’s road maintenance and machinery division. The merger and the new business name, Tariston AS, were registered at the Commercial Register on 6 January 2017.

Liquidation of a subsidiary

The liquidation of Instar Ukraine TOV was finalised on 6 February 2017. The company was dormant.

Establishment of a subsidiary

On 16 February 2017, the Group’s subsidiary Nordecon Betoon OÜ established a subsidiary, OÜ NOBE. The company was established to protect the trade name NOBE, which Nordecon Betoon OÜ has been using since spring 2017.

Disposal of investments in a joint venture and some subsidiaries

On 31 July 2017, Nordecon AS signed an agreement for the sale of its 50% stake in the joint venture Unigate OÜ and 100% stakes in the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ to AS Merko Ehitus. The purpose of the transaction was to resolve the ownership issues of the properties held by the entities and to dispose of the investments at a profit.

Financial review

Financial performance

Nordecon Group ended the first nine months of 2017 with a gross profit of 6,768 thousand euros (9M 2016: 8,591 thousand euros) and a gross margin of 3.9% (9M 2016: 6.4%). The weakening of the gross margin stemmed mainly from the Buildings segment whose gross margin dropped to 4.3% (9M 2016: 8.1%). The year-on-year decline in the gross margin is attributable to growth in input costs, particularly materials and labour. Our performance is strongly influenced by the insufficient availability of skilled labour and thus also the shortage of subcontractors in the building construction segment where the number of buildings under construction is large for the Estonian market. This allows subcontractors to raise their prices, which puts pressure on general contractors' profit margins. We have been highlighting the fact that market forces are undermining profitability since the second half of 2016. The weakening of the gross margin is also attributable to the loss of the Swedish subsidiary that incurred some interior work costs in the final stage of its first construction contract which could not be sufficiently accurately estimated in the new market. The performance of our Infrastructure segment improved somewhat compared to the same period last year, its gross margin rising to 3.9% (9M 2016: 3.7%).

Administrative expenses for the first nine months of 2017 totalled 5,375 thousand euros. Compared with a year earlier, administrative expenses grew substantially (9M 2016: 4,629 thousand euros), mainly through the termination benefits paid to two board members of Nordecon AS that stepped down and the council's decision to increase the number of the company's board members. Despite changes in the composition of the board, structural streamlining, and sustained investment in foreign markets which in the start-up phase is inevitably accompanied by planned growth in administrative expenses, our cost-control measures continued to produce good results and we were able to keep administrative expenses below the target ceiling of 4% of revenue. The ratio of administrative expenses to revenue (12 months rolling) was 3.0% (9M 2016: 3.8%).

Operating profit for the first nine months of 2017 amounted to 913 thousand euros (9M 2016: 3,292 thousand euros). EBITDA was positive at 2,419 thousand euros (9M 2016: 4,723 thousand euros).

Finance income for the period amounted to 2,802 thousand euros (9M 2016: 336 thousand euros). A significant share of this resulted from the sale of our investments in the joint venture Unigate OÜ and the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ, which generated a gain of 2,527 thousand euros.

The Group's exchange losses from adverse movements in the euro/Ukrainian hryvnia exchange rate were similar to a year earlier. In the first nine months of 2017, the Ukrainian currency weakened against the euro by around 9%, which meant that Group entities whose functional currency is the hryvnia had to restate their euro-denominated liabilities. Exchange losses reported in finance costs totalled 247 thousand euros (9M 2016: 251 thousand euros). The same movements in the exchange rate increased the translation reserve in equity by 259 thousand euros (9M 2016: 239 thousand euros) and the net effect of the exchange differences on the Group's net assets was a gain of 12 thousand euros (9M 2016: a loss of 12 thousand euros).

The Group's net profit amounted to 2,716 thousand euros (9M 2016: 3,315 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, was 2,978 thousand euros (9M 2016: 2,437 thousand euros).

Cash flows

In the first nine months of 2017, operating activities produced a net cash outflow of 8,241 thousand euros (9M 2016: a net outflow of 1,348 thousand euros). Although cash receipts from customers exceeded cash paid to suppliers, operating cash flow proved negative due to VAT paid and payments made to and for employees. Operating cash flow continues to be strongly affected by the fact that neither public nor private sector customers have the obligation to make advance payments while the Group has to make prepayments to subcontractors, materials suppliers, etc. In addition, cash inflow is 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 produced a net cash inflow of 4,627 thousand euros (9M 2016: an inflow of 86 thousand euros). Cash flows from investing activities were strongly influenced by the sale of the investment in the joint venture Unigate OÜ for 2,744 thousand euros and loan principal and interest of 1,461 thousand euros and 329 thousand euros respectively collected through the transaction. Investments in property, plant and equipment and intangible assets totalled 297 thousand euros (9M 2016: 170 thousand euros) and dividends received amounted to 153 thousand euros (9M 2016: 153 thousand euros). Own shares sold during the reporting period generated income of 153 thousand euros.

Financing activities generated a net cash inflow of 1,902 thousand euros (9M 2016: an inflow of 2,224 thousand euros). Our financing cash flow is strongly influenced by loan and finance lease transactions. Proceeds from loans received amounted to 7,457 thousand euros, consisting of development loans received and the use of overdraft facilities (9M 2016: 7,166 thousand euros). Loan repayments totalled 720 thousand euros (9M 2016: 1,520 thousand euros) consisting of scheduled repayments of long-term investment and development loans. Finance lease payments decreased slightly, amounting to 1,758 thousand euros (9M 2016: 1,831 thousand euros). Dividends paid in the first nine months of 2017 totalled 2,488 thousand euros (9M 2016: 1,068 thousand euros).

At 30 September 2017, the Group's cash and cash equivalents totalled 8,062 thousand euros (30 September 2016: 7,288 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio for the period	9M 2017	9M 2016	9M 2015	2016
Revenue (EUR '000)	174,909	133,570	113,553	183,329
Revenue change	30.9%	17.6%	-6.1%	26%
Net profit (EUR '000)	2,716	3,315	2,317	3,933
Net profit attributable to owners of the parent (EUR '000)	2,978	2,437	2,482	3,044
Weighted average number of shares	30,913,031	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.10	0.08	0.08	0.10
Administrative expenses to revenue	3.1%	3.5%	3.0%	3.3%
Administrative expenses to revenue (rolling)	3.0%	3.8%	3.3%	3.3%
EBITDA (EUR '000)	2,419	4,723	4,187	6,017
EBITDA margin	1.4%	3.5%	3.7%	3.3%
Gross margin	3.9%	6.4%	5.5%	6.0%
Operating margin	0.5%	2.5%	2.5%	2.3%
Operating margin excluding gain on asset sales	0.5%	2.4%	2.3%	2.2%
Net margin	1.6%	2.5%	2.0%	2.1%
Return on invested capital	6.5%	6.8%	5.0%	8.5%
Return on equity	7.2%	9.0%	6.2%	10.6%
Equity ratio	29.3%	33.2%	35.9%	28.6%
Return on assets	2.4%	3.3%	2.3%	4.2%
Gearing	31.6%	28.3%	33.4%	16.7%
Current ratio	1.04	1.05	1.07	1.20

As at	30 Sept 2017	30 Sept 2016	30 Sept 2015	31 Dec 2016
Order book (EUR '000)	142,553	133,846	76,261	131,335

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 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

Performance by geographical market

In the first nine months of 2017, Nordecon earned around 5% of its revenue outside Estonia, compared with 7% in the same period last year. In terms of foreign markets, the strongest revenue contributor was Sweden where we completed two apartment buildings and continued the design and construction of a third, an 8-floor apartment building. The share of our Ukrainian revenues and business volumes decreased somewhat compared with a year earlier: during the period, we provided services under two building construction contracts. Our Finnish revenues resulted from concrete works in the building construction segment.

	9M 2017	9M 2016	9M 2015	2016
Estonia	95%	93%	96%	93%
Sweden	3%	4%	0%	4%
Ukraine	1%	2%	3%	4%
Finland	1%	1%	1%	1%

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 selected foreign markets are also volatile and have a strong impact on our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic targets. Our vision of the Group's foreign operations is described in the chapter *Outlooks of the Group's geographical markets.*

Performance by business line

Segment revenues

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing construction operations in more challenging circumstances, for example when the operating volumes of a sub-segment decline sharply.

Nordecon's revenue for the first nine months of 2017 amounted to 174,909 thousand euros, a roughly 31% increase on the 133,570 thousand euros generated in the first nine months of 2016. Although revenue increased in both the Buildings and the Infrastructure segment, the main growth driver was the Buildings segment where growth was underpinned by a rise in the volume of contracts secured from the private sector. The downturn in infrastructure construction, which is affecting the entire Estonian construction market (and the Group's chosen strategy), has also left its mark on our revenue structure.

In the first nine months of 2017, our Buildings segment and Infrastructure segment generated revenue of 130,618 thousand euros and 42,303 thousand euros respectively. The corresponding figures for the same period in 2016 were 96,647 thousand euros and 34,923 thousand euros (see note 8). Our order book has a similar structure: at the end of the period, 70% of contracts secured but not yet performed was attributable to the Buildings segment (9M 2016: 78%).

Operating segments*	9M 2017	9M 2016	9M 2015	2016
Buildings	75%	72%	61%	73%
Infrastructure	25%	28%	39%	27%

* 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 financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the 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 in general Group entities specialise in specific areas except for the subsidiary Nordecon Betoon OÜ that is involved in both building and infrastructure construction. The figures for the parent company are allocated in both parts of the interim report based on the nature of the work.

Sub-segment revenues

In the Buildings segment, the revenue contributions of all sub-segments were quite similar. Only the revenue of the apartment buildings sub-segment, where we earned most of our revenue as a general contractor, was slightly larger than the rest. In Estonia, a substantial share of our apartment building projects is located in Tallinn. During the period under review, the largest projects were the Meerhof 2.0 apartment building complex at Pirita tee 20a and apartment buildings at Sõjakooli 12 (phase 2) and Virbi 10. The contribution of foreign markets sustained growth. In Ukraine, we continued to build a residential quarter in the city of Brovary in the Kiev region. In Sweden, we completed two apartment buildings and continued the design and construction of a third, an 8-floor apartment building, in Stockholm.

We continued work on our own housing development projects (reported in the apartment buildings sub-segment) in Tartu and Tallinn. In the Tammelinn project in Tartu, we completed phase 5, which consists of a four-floor building with 24 apartments, continued work on phase 6 and made preparations for launching the construction of phase 7 (www.tammelinn.ee). In Tallinn, we completed the fifth and last terraced house in our Magasini 29 development project (www.magasini.ee) and two apartment buildings with a total of 30 apartments in Hane street. The period's housing development revenues totalled 4,431 thousand euros (9M 2016: 3,012 thousand euros). In carrying out development activities, we monitor closely potential risks in the housing development market that stem from rapid growth in the supply of new housing and growth in input prices.

The revenues of the commercial buildings sub-segment grew considerably compared with the first nine months of 2016. We completed the renovation of the machinery hall of the historical Luther furniture factory into a modern office building and the construction of the office and commercial complex Viimsi Äritare. We continued to build an office building at Lõõtsa 12, the Öpiku B building and a multi-storey car park at Lõõtsa 11 in Ülemiste City and the Martens house in Pärnu. Based on our order book, we expect the commercial buildings sub-segment to post year-on-year revenue growth at the year-end.

The revenues of the industrial and warehouse facilities sub-segment grew year on year. The period's largest projects were the construction of Harmet's production and warehouse facilities at Kumna, near Tallinn, a co-generation plant at Kehra, a cattle shed complex at Kogula, and the Metsä Wood plywood factory in Pärnu.

The revenue contribution of the public buildings sub-segment decreased compared with a year earlier. The revenues of this sub-segment have been strongly influenced by growth in the state's investment in national defence. During the period, we delivered to the customers the building of Ugala Theatre in Viljandi, the Lintsi warehouse complex, and a depot, infrastructure for armoured vehicles, a canteen and a barracks at the Tapa military base. We began building an academic building for the Estonian Academy of Security Sciences.

Revenue breakdown in the Buildings segment	9M 2017	9M 2016	9M 2015	2016
Apartment buildings	31%	32%	20%	34%
Commercial buildings	24%	15%	56%	16%
Industrial and warehouse facilities	23%	22%	11%	20%
Public buildings	22%	31%	13%	30%

For a long time, the main revenue source in the Infrastructure segment has been road construction and maintenance, which posted 17% year on year revenue growth in the first nine months of 2017 although its contribution to the Infrastructure segment's revenues decreased somewhat. In contrast to two previous years, when most of the sub-segment's revenues resulted from small or medium-sized reconstruction or rehabilitation projects, this year we have been working on four major contracts: the construction of a 2+1 road (a road with passing lanes) on the Äämäe-Kohatu section of the Tallinn-Pärnu-Ikla road which was secured at the end of 2016 and the reconstruction of the Haabersti intersection in Tallinn, the construction of a 2+1 road on the Valmaotsa–Kärevere section of the Tallinn–Tartu–Võru–Luhamaa road, and the reconstruction of a section of the Tallinn ring road (km 0.6-2.8) which were secured in 2017. We continued to render road maintenance services in Järva and Hiiu counties and the Keila and Kose maintenance areas in Harju county. A substantial share of the period's revenues also resulted from forest road improvement services provided to the State Forest Management Centre.

The contracts secured by the environmental engineering and other engineering (utility network construction) sub-segments are small and significant growth of the sub-segments' revenues is unlikely. At the date of release of this report, there is no sign of any major hydraulic engineering projects to be announced and demand for other complex and large-scale engineering work also tends to be irregular.

Revenue breakdown in the Infrastructure segment	9M 2017	9M 2016	9M 2015	2016
Road construction and maintenance	84%	86%	82%	86%
Other engineering	12%	9%	13%	9%
Environmental engineering	4%	5%	4%	5%
Specialist engineering (including hydraulic engineering)	0%	0%	1%	0%

Order book

At 30 September 2017, the Group's order book (backlog of contracts signed but not yet performed) stood at 142,553 thousand euros, 7% up on a year ago. In the third quarter, we secured new contracts of 66,371 thousand euros.

As at	30 Sept 2017	30 Sept 2016	30 Sept 2015	31 Dec 2016
Order book (EUR '000)	142,553	133,846	76,261	131,335

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 70% and 30% of the Group's order book respectively (30 September 2016: 78% and 22% respectively).

Compared with the same period in 2016, the order book of the Buildings segment decreased by around 5%. The order books of the public buildings and the apartment buildings sub-segments declined at a similar rate. Despite that, the order book of the apartment buildings sub-segment is the second-largest after that of the commercial buildings sub-segment. The order book of the apartment buildings sub-segment is influenced by large contracts secured in 2016 for the construction of the Meerhof 2.0 apartment building complex at Pirita tee 20a and apartment buildings at Sõjakooli 12 in Tallinn and five apartment buildings in the city of Brovary in Kiev region in Ukraine. In 2017, we have increased our order book with contracts for the construction of an eight-floor apartment building (Väsby Terrass) in Sweden and the design and construction of three apartment buildings at Kakumäe in Tallinn. The largest contracts in the order book of the public buildings sub-segment are the construction of an academic building for the Estonian Academy of Security Sciences and the Abja Health Centre building which were secured in the third quarter of 2017. The order books of the commercial buildings and the industrial and warehouse facilities sub-segments have increased substantially, the first primarily through the contracts for the construction of a multi-storey car park at Sepise 8 in Ülemiste City and the design and construction of a 14-floor commercial and residential building at Mustamäe tee 3 in the WoHo quarter in Tallinn. The sub-segment's order book has also grown through the contract for the construction of a 7-floor office building in the Unit City innovation park in Kiev, which was signed in the third quarter. In the first quarter of 2017, we secured a contract for building a plywood factory for Metsä Wood in Pärnu, which increased the order book of the industrial and warehouse facilities sub-segment. Orders placed by the agricultural sector have increased as well.

Compared with a year ago, the order book of the Infrastructure segment has grown by around 45%. Most of the increase is attributable to the road construction and maintenance sub-segment whose order book accounts for 91% of the segment's order book. The largest projects in the road construction order book are the contracts signed in 2017 for the reconstruction of the Haabersti intersection in Tallinn, the reconstruction of a section of the Tallinn ring road (km 0.6-2.8) and the construction of a 2+1 road on the Valmaotsa–Kärevere section of the Tallinn–Tartu–Võru–Luhamaa road. We continue to provide road maintenance services in four road maintenance areas: Keila, Järva, Hiiu, and Kose. The order book of the environmental engineering sub-segment has been supplemented with a contract for the construction of a water treatment plant in Kiev, Ukraine. According to our projections, in 2017 public investments will not increase substantially. Nevertheless, based on our order book as at the reporting date we expect that in 2017 the revenue of the Infrastructure segment will grow slightly compared to 2016 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

Based on the size of the Group's order book and known developments in our selected markets, we project year-on-year revenue growth for 2017. In an environment of stiff competition, we try to avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on our results. Despite this, where suitable opportunities arise, we strive to counteract market-triggered margin compression by increasing the portfolio. Our preferred policy is to keep fixed costs under control and monitor market developments.

Between the reporting date (30 September 2017) and the date of release of this report, Group companies have secured additional construction contracts in the region of 35,060 thousand euros.

People

Employees and personnel expenses

In the first nine months of 2017, the Group (the parent and the subsidiaries) employed, on average, 739 people including 425 engineers and technical personnel (ETP). The number of employees, particularly the ETP staff, has increased year on year by around 9% in connection with growth in the Group's business operations.

Average number of the Group's employees (at the parent and the subsidiaries)

	9M 2017	9M 2016	9M 2015	2016
ETP	425	374	357	381
Workers	314	305	342	303
Total average	**739**	**679**	**699**	**684**

Our personnel expenses for the first nine months of 2017 including all taxes totalled 16,343 thousand euros (9M 2016: 14,898 thousand euros), a roughly 10% increase year on year. The growth in personnel expenses is mainly attributable to a larger headcount.

The service fees of the members of the council of Nordecon AS for the first nine months of 2017 amounted to 120 thousand euros and associated social security charges totalled 40 thousand euros (9M 2016: 145 thousand euros and 48 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 923 thousand euros and associated social security charges totalled 272 thousand euros (9M 2016: 480 thousand euros and 158 thousand euros respectively). The figures include termination benefits of 550 thousand euros paid to two board members in the third quarter and associated social security charges of 182 thousand euros (9M 2016: nil euros). In addition, the board's compensation has grown because the number of board members has increased.

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 2017	9M 2016	9M 2015	2016
Nominal labour productivity (rolling), (EUR '000)	308.1	245.1	217.5	268.0
Change against the comparative period	25.7%	12.7%	-0.6%	27%
Nominal labour cost efficiency (rolling), (EUR)	10.3	8.2	8.2	9.0
Change against the comparative period	24.8%	0.6%	9.8%	12.8%

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' personnel expenses)

The Group's nominal labour productivity and labour cost efficiency increased year on year, mainly through revenue growth (see the section *Employees and personnel expenses*).

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 OMX 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 307,567,280 Estonian kroons to 19,657,131.9 euros. 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 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, 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.

Reduction of share capital

On 24 May 2017 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 15 September 2017 the reduction was registered at the Commercial Register.

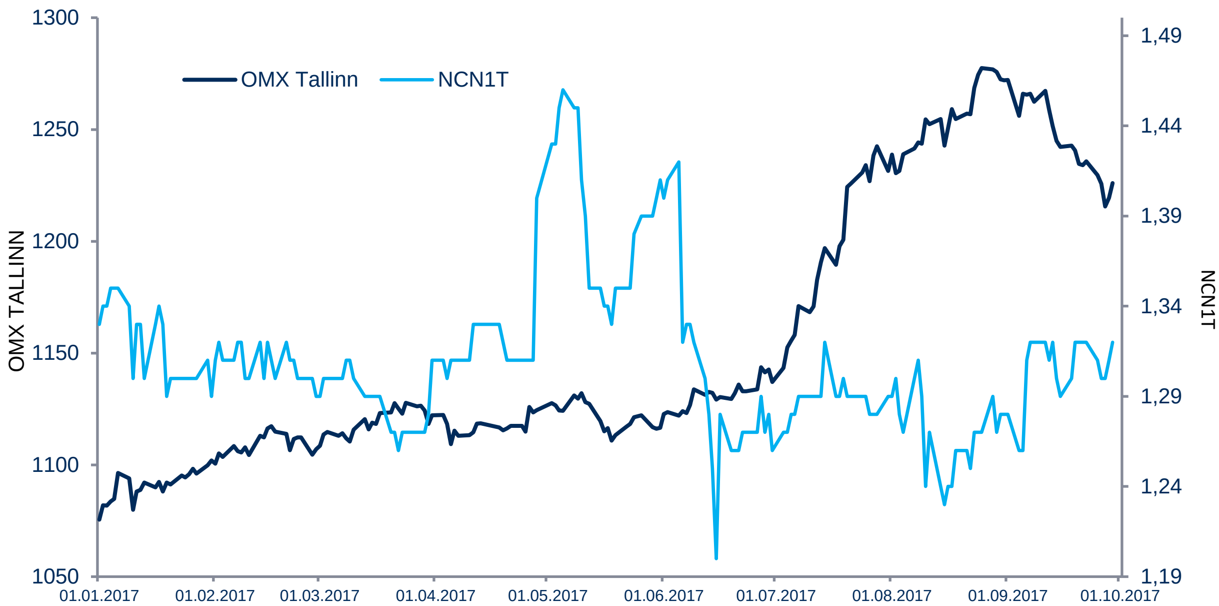
Based on the decision of the annual general meeting, the company's share capital was reduced by 1,456,896.74 euros, from 19,720,440.42 euros to 18,263,543.68 euros. Share capital was reduced by reducing the book value of the shares by 0.045 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital. After reduction, the company's share capital amounts to 18,263,543.68 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital of 1,384,052.76 euros (0.045 euros per share) will be paid out to shareholders on 18 December 2017. No payments will be made for own shares held by Nordecon AS.

Movements in the price and turnover of the Nordecon AS share in the first nine months of 2017

Movements in 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 the first nine months of 2017



Index/equity	1 January 2017*	30 September 2017	+/-
OMX Tallinn	1,075.50	1,225.95	13.99%
NCN1T	EUR 1.33	EUR 1.32	-0.75%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2016

Summarised trading results

Share trading history (EUR)

Price	9M 2017	9M 2016	9M 2015
Open	1.34	1.03	1.02
High	1.46	1.25	1.14
Low	1.20	0.98	0.98
Last closing price	1.32	1.21	1.00
Traded volume (number of securities traded)	1,421,816	974,459	971,467
Turnover, in millions	1.87	1.06	1.02
Listed volume (30 September), in thousands	32,375	32,375	32,375
Market capitalisation (30 September), in millions	42.74	39.17	32.38

Shareholder structure

Largest shareholders of Nordecon AS at 30 September 2017

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,172,385	12.89
ING Luxembourg S.A.	2,007,949	6.20
Rondam AS	1,000,000	3.09
SEB Pank AS clients	693,567	2.14
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	368,656	1.14
Ain Tromp	303,960	0.94
Alforme OÜ	258,000	0.80
SEB Elu- ja Pensionikindlustus AS	255,000	0.79

Shareholder structure of Nordecon AS at 30 September 2017

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	70.08
Shareholders with interest from 1% to 5%	4	7.97
Shareholders with interest below 1%	1,705	17.43
Holder of own (treasury) shares	1	4.52
Total	**1,713**	**100**

Shares controlled by members of the council of Nordecon AS at 30 September 2017:

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	51.21
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		**16,639,144**	**51.39**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 September 2017:

Board member		Number of shares	Ownership interest (%)
Erkki Suurorg	Acting Chairman of the Board	0	0.00
Priit Luman	Member of the Board	200	0.00
Maret Tambek	Member of the Board	0	0.00
Ando Voogma	Member of the Board	0	0.00
Total		**200**	**0.00**

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company has granted options for acquiring up to 1,618,755 shares in Nordecon AS. The chairman of the board of Nordecon AS may acquire up to 291,380 shares, both members of the board may acquire up to 259,000 shares each and all other members of the executive staff may acquire up to 129,500 shares each. An option may be exercised when three years have passed since the signature of the option agreement but not before the general meeting has approved the company's annual report for 2016. In the case of members of the company's board, exercise of the options is linked to the achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares at the same price.

The annual general meeting which convened on 24 May 2017 approved some changes to the share option plan by which the term for exercising a share option was extended and the conditions for exercising the options granted to persons who at the grant date were members of the board were amended. An option may be exercised within 15 months after the general meeting has approved Nordecon AS's annual report for 2016. Depending on the time an option is exercised, its exercise by the board member is linked to the achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros) or the Group's EBITDA target for 2017 (from 4,132 thousand euros to 8,264 thousand euros).

During the reporting period, options for the acquisition of 156,303 shares were exercised.

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.

Competition continues to be stiff in all segments of the construction market and in 2017 public investment is not expected to grow substantially compared with 2016. Thus, builders' bid prices are under strong competitive pressure in a situation where the prices of construction inputs have been trending upwards moderately but consistently for several quarters. Bidders include not only rival general contractors but also former subcontractors. This is mainly attributable to the state and local governments' policy to keep the qualification requirements of public procurement tenders low, which sometimes results in the sacrifice of quality and adherence to deadlines to the lowest possible price. We acknowledge the risks inherent in the performance of contracts signed in an environment of stiff competition and rising input prices. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered noticeably and competition is tough is risky because negative developments in the economy may quickly render the contract onerous. In setting our prices in such an environment, we focus on ensuring a reasonable balance of contract performance risks and tight cost control.

Demand for construction services continues to be strongly influenced by the volume of public investment, which in turn depends on the co-financing received from the EU structural funds. Total support allocated to Estonia during the current EU budget period (2014-2020) amounts to 5.9 billion euros. Although the amount exceeds the figure for the previous financial framework, the amounts earmarked for construction work are substantially smaller than in the previous budget period. Projects supported by the EU during the 2014-2020 financial framework began to have some impact on the construction sector in the second half of 2016 and in the following years the process is expected to accelerate.

In the light of the above factors, we see some opportunities for achieving year-on-year business growth in 2017 and 2018: business growth in Estonia is also supported by positive developments in our selected foreign markets. Our action plan foresees flexible resource allocation aimed at finding more profitable contracts and performing them effectively. According to its business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in one narrow (and in the current market situation particularly some infrastructure) segment.

Our business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction where a lot of work is done outdoors (road and port construction, earthwork, etc.). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance (see also the chapter *Performance by business line*). Where possible, our entities implement different technical solutions that allow working efficiently also in changeable conditions.

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, as a rule, subcontractors are required to secure 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. At 30 September 2017, the Group's warranty provisions (including current and non-current ones) totalled 1,085 thousand euros (30 September 2016: 1,117 thousand euros).

In addition to managing the risks directly related to construction operations, in recent years we have also sought to mitigate the risks inherent in preliminary activities. In particular, we have focused on the bidding process, i.e., compliance with the procurement terms and conditions, and budgeting. The errors made in the planning stage are usually irreversible and, in a situation where the price is contractually fixed, may result in a direct financial loss.

Financial risks

Credit risk

During the period, we recognised credit losses of 37 thousand euros. A year earlier, credit losses totalled 506 thousand euros, comprising impairment losses on trade receivables of 97 thousand euros and impairment losses on other receivables of 409 thousand euros. The overall credit risk exposure of receivables is low because the solvency of prospective customers is evaluated, the share of public sector customers is large, and customers' settlement behaviour is consistently monitored. The main indicator of the realisation of credit risk is 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 assets exceeded its current liabilities 1.04-fold (30 September 2016: 1.05-fold). The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associates as non-current assets and the banks' general policy not to refinance interest-bearing liabilities (particularly overdrafts) for a period exceeding twelve months.

Because the political and economic situation in Ukraine is still complicated, we believe that the Group's Ukrainian investment properties cannot be realised in the short term. Accordingly, at the reporting date the Group's loans to its Ukrainian associates of 8,867 thousand euros were classified as non-current assets.

For better cash flow management, we use overdraft facilities and factoring 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. As at 30 September 2017, the Group's short-term borrowings totalled 21,525 thousand euros, including factoring liabilities of 5,000 thousand euros. Based on our prior experience with banks, out of the above amount contracts of 13,759 thousand euros will be extended when their maturity dates arrive.

At the reporting date, the Group's cash and cash equivalents totalled 8,062 thousand euros (30 September 2016: 7,288 thousand euros).

Interest rate risk

Our interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. During the period, interest-bearing borrowings grew by 4,018 thousand euros year on year. Factoring liabilities increased whereas loan and finance lease liabilities decreased slightly (see also the section *Liquidity risk*). At 30 September 2017, interest-bearing borrowings totalled 29,011 thousand euros (30 September 2016: 24,993 thousand euros). Interest expense for the first nine months of 2017 amounted to 487 thousand euros (9M 2016: 501 thousand euros).

The main source of interest rate risk is a possible rise in the variable component of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden, this would cause a significant rise in 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 a floating interest rate. We have entered into a derivative contract to manage the risks resulting from changes in the interest rates of the finance lease contract for the acquisition of a new asphalt concrete plant.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e., in euros (EUR), Ukrainian hryvnias (UAH), and Swedish kronas (SEK).

The exchange rate of the hryvnia has been unstable because the political and economic environment in Ukraine continues to be complicated due to the conflict between Ukraine and Russia which broke out at the beginning of 2014. Moreover, at the beginning of 2015 the National Bank of Ukraine decided to discontinue determining the national currency's indicative exchange rate. In the first nine months of 2017, the hryvnia weakened against the euro by around 9%. For our Ukrainian subsidiaries, this meant additional foreign exchange losses from the translation of their euro-denominated loans into the local currency. Relevant exchange losses totalled 247 thousand euros (9M 2016: 251 thousand euros). Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs* respectively. 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 which are related to the construction business and denominated in hryvnias do not give rise to exchange losses. Nor do the loans provided to the Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's accounts.

Due to movements in the Swedish krona/euro exchange rate in the first nine months of 2017, translation of operating receivables and payables resulted in an exchange loss of 8 thousand euros (9M 2016: an exchange loss of 5 thousand euros). The exchange loss has been recognised in *Other operating expenses.*

We have not acquired derivatives to hedge currency risk.

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- At the end of 2017 and in 2018, public investment should grow slightly. However, it is still unclear for companies in which segments of the construction market and to what extent the state will be able to realise its investment plans. Although in the 2014-2020 EU budget period the support allocated to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), the portion that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to intangible areas.

  In the context of the market in general, investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which will reach signature of a construction contract in 2017 will not increase substantially. The Ministry of Defence has been a positive exception for builders as its needs and activity in carrying out new procurement tenders and placing orders through a single agency, the Centre for Defence Investment, have made a significant contribution to market revival. Hence, the Estonian construction market as a whole (particularly infrastructure construction segments) will remain in relative stagnation. So far, the situation has been mitigated by the private sector's buoyant investment in building construction but the latest developments reflect a certain slowdown also in the latter.

- The long and painful process of construction market consolidation will continue, albeit slowly. In particular, this applies to general contracting in building construction where the number of medium-sized general contractors (annual turnover of around 15-40 million euros) is too large. Based on the experience of the last major crisis it is likely that in an environment of stiff competition and rising input prices some general contractors may run into difficulties which will be passed on to several other market participants.

  Competition remains stiff across the construction market, intensifying in different segments in line with market developments. The rise in the average number of bidders for a contract reflects this. It is clear that in the new environment of rising input prices that has emerged in the past year, efficiency is the key to success. Regrettably, the number of materials producers, suppliers, and subcontractors that are trying to survive or succeed in a difficult environment by dishonest means, e.g., by supplying goods with concealed defects or considerably lower quality than the one recorded in the product certificate, has increased quite rapidly. If the trend continues, both construction service providers and end-customers will have to apply strict and thorough quality control measures to make sure that the outcome meets their expectations. Unfair competition is putting visible pressure on prices and the quality of the construction service. Unfortunately, the problem is also underpinned by the customers' (including state institutions' and state-owned companies') increasing tendency to lower the bidders' qualification requirements and prioritise quality more on paper than in practice.

- In new housing development, the success of a project depends on the developer's ability to control the input prices included in its business plan and set sales prices that are affordable for prospective buyers. Despite the market situation, the housing market sustained growth also in the first nine months of 2017, accounting for a somewhat disproportionately large share of the total construction market and thus amplifying associated risks.

- There is a growing contrast between the stringent terms of public contracts, which require the builder to agree to extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the modest participation requirements. 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 but have heightened the risks taken by customers in terms of funding, deadlines and quality during the contract performance phase and the subsequent warranty period.

- The past year has brought a rise in the prices of construction inputs, particularly in building construction. At first, general contractors tried to absorb the cost increase by making margin concessions but their capacity for doing this has been practically exhausted. The construction market includes an increasing number of areas where changes in the environment (including materials producers' rapid and successful entry into foreign markets) may trigger a sharp price increase. The rise in housing construction has lengthened the supply terms of various essential materials and services considerably, making it impossible to carry out all processes in the former optimistic timeframes. As a result, activities require more extensive planning or may need to be postponed.

- The persisting shortage of skilled labour (including project and site managers) is restricting companies' performance capacities, affecting different aspects of the construction process, including quality. Labour migration to the Nordic countries will remain steady and the number of job seekers who return to the Estonian construction market is not likely to increase considerably. All of the above sustains pressure for a wage increase, particularly in the category of the younger and less experienced workforce whose mobility and willingness to change jobs is naturally higher.

Ukraine

In Ukraine, we offer general contracting and project management services to private sector customers in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity in Kiev and the surrounding area has not halted. In 2017, we will continue our Ukrainian operations primarily in the Kiev region but the preparations made in western Ukraine are also bearing fruit: in October, we signed a large-scale contract in Lviv. Based on our order book, we expect that in 2017 our operating volumes will remain at a level comparable to 2016. Despite the military conflict in eastern Ukraine, for Nordecon the market situation has not deteriorated compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability. The Ukrainian government's recent crackdown on cash-in-hand work is definitely a step in the right direction, which in the long term should improve our position in the Ukrainian construction market. We assess the situation in the Ukrainian market regularly and critically and are ready to restructure our operations as and when necessary. Should the crisis in eastern Ukraine spread (which at the date of release of this report is highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects, which have been put on hold, or signing a construction contract with a prospective new owner.

Finland

In Finland, we have provided mainly subcontracting services in the concrete work segment but, based on experience gained, have started preparations for expanding into the general contracting market. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. Our policy is to maintain a rational approach and avoid taking excessive risks.

Sweden

We entered the Swedish market in July 2015, when we acquired a 100% stake in SWENCN AB, a company registered in the Kingdom of Sweden. In the Swedish market, we intend to offer mainly the construction of residential and non-residential buildings, particularly in central Sweden. On gaining experience in the new market, we have prioritised quality and the observance of deadlines and have therefore accepted lower profitability. As regards our longer-term goals and the plan to build a viable and strong organisation that would compete successfully in the Swedish market, we are positive about the developments so far and see potential for sustaining business growth and operating profitably in a large market when we have been able to stabilise order book growth at the desired level.

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.

Erkki Suurorg	Acting Chairman of the Board		9 November 2017
Priit Luman	Member of the Board		9 November 2017
Maret Tambek	Member of the Board		9 November 2017
Ando Voogma	Member of the Board		9 November 2017

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	30 September 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents		8,062	9,786
Trade and other receivables	2	47,283	21,055
Prepayments		2,717	1,644
Inventories	3	26,471	22,992
Total current assets		**84,533**	**55,477**
Non-current assets			
Investments in equity-accounted investees		1,920	1,640
Other investments		26	26
Trade and other receivables	2	9,327	10,816
Investment property		4,929	4,929
Property plant and equipment	4	11,792	11,111
Intangible assets	4	14,643	14,623
Total non-current assets		**42,637**	**43,145**
TOTAL ASSETS		**127,170**	**98,622**
LIABILITIES			
Current liabilities			
Borrowings	5, 6	21,525	6,297
Trade payables		46,023	29,811
Other payables		7,208	5,389
Deferred income		5,905	4,128
Provisions		379	753
Total current liabilities		**81,040**	**46,378**
Non-current liabilities			
Borrowings	5, 6	7,501	13,102
Trade payables		98	98
Other payables		118	117
Provisions		1,111	881
Total non-current liabilities		**8,828**	**14,198**
TOTAL LIABILITIES		**89,868**	**60,576**
EQUITY			
Share capital		18,263	19,720
Own (treasury) shares		-1,349	-1,550
Share premium		589	564
Statutory capital reserve		2,554	2,554
Translation reserve		1,808	1,549
Retained earnings		14,685	13,091
Total equity attributable to owners of the parent		**36,550**	**35,928**
Non-controlling interests		**752**	**2,118**
TOTAL EQUITY		**37,302**	**38,046**
TOTAL LIABILITIES AND EQUITY		**127,170**	**98,622**

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	9M 2017	Q3 2017	9M 2016	Q3 2016	2016
Revenue	8, 9	174,909	71,408	133,570	59,741	183,329
Cost of sales	10	-168,141	-67,779	-124,979	-55,303	-172,350
Gross profit		**6,768**	**3,629**	**8,591**	**4,438**	**10,979**
Marketing and distribution expenses		-448	-114	-279	-61	-413
Administrative expenses	11	-5,375	-2,297	-4,629	-1,847	-6,106
Other operating income	12	98	44	148	51	362
Other operating expenses	12	-130	-23	-539	-79	-614
Operating profit		**913**	**1,239**	**3,292**	**2,502**	**4,208**
Finance income	13	2,802	2,598	336	101	463
Finance costs	13	-726	-298	-785	-319	-1,088
Net finance income/costs		**2,076**	**2,300**	**-449**	**-218**	**-625**
Share of profit of equity-accounted investees		518	325	717	233	609
Profit before income tax		**3,507**	**3,864**	**3,560**	**2,517**	**4,192**
Income tax expense		-791	-251	-245	0	-259
Profit for the period		**2,716**	**3,613**	**3,315**	**2,517**	**3,933**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translating foreign operations		259	132	239	127	191
Total other comprehensive income		**259**	**132**	**239**	**127**	**191**
TOTAL COMPREHENSIVE INCOME		**2,975**	**3,745**	**3,554**	**2,644**	**4,124**
Profit attributable to:						
- Owners of the parent		2,978	3,868	2,437	2,011	3,044
- Non-controlling interests		-262	-255	878	506	889
Profit for the period		**2,716**	**3,613**	**3,315**	**2,517**	**3,933**
Total comprehensive income attributable to:						
- Owners of the parent		3,237	4,000	2,676	2,138	3,235
- Non-controlling interests		-262	-255	878	506	889
Total comprehensive income for the period		**2,975**	**3,745**	**3,554**	**2,644**	**4,124**
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	0.10	0.12	0.08	0.07	0.10
Diluted earnings per share (EUR)	7	0.10	0.12	0.08	0.07	0.10

Condensed consolidated interim statement of cash flows

EUR '000	Note	9M 2017	9M 2016
Cash flows from operating activities			
Cash receipts from customers[1]		183,759	137,502
Cash paid to suppliers[2]		-170,133	-119,130
VAT paid		-4,479	-4,643
Cash paid to and for employees		-17,063	-14,832
Income tax paid		-325	-245
Net cash used in operating activities		**-8,241**	**-1,348**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-292	-145
Paid on acquisition of intangible assets		-5	-25
Proceeds from sale of property, plant and equipment	4	48	97
Disposal of investments in subsidiaries and a joint venture		2,744	6
Loans provided		-38	-40
Repayment of loans provided		1,487	40
Dividends received		153	153
Interest received		377	0
Sale of own shares		153	0
Net cash from investing activities		**4,627**	**86**
Cash flows from financing activities			
Proceeds from loans received		7,457	7,166
Repayment of loans received		-720	-1,520
Finance lease principal paid	6	-1,758	-1,831
Interest paid		-589	-523
Dividends paid		-2,488	-1,068
Net cash from financing activities		**1,902**	**2,224**
Net cash flow		**-1,712**	**962**
Cash and cash equivalents at beginning of period		**9,786**	**6,332**
Effect of movements in foreign exchange rates		-12	-6
Decrease in cash and cash equivalents		-1,712	962
Cash and cash equivalents at end of period		**8,062**	**7,288**

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

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

Condensed consolidated interim statement of changes in equity

EUR '000	Share capital	Own shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
	Equity attributable to owners of the parent								
Balance at 31 December 2015	**20,692**	**-1,582**	**2,554**	**547**	**1,358**	**10,970**	**34,539**	**1,528**	**36,067**
Profit for the period	0	0	0	0	0	2,437	2,437	878	3,315
Other comprehensive income	0	0	0	0	239	0	239	0	239
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-145	-1,068
Reduction of share capital	-972	32	0	17	0	0	-923	0	-923
Total transactions with owners	**-972**	**32**	**0**	**17**	**0**	**-923**	**-1,846**	**-145**	**-1,991**
Balance at 30 September 2016	**19,720**	**-1,550**	**2,554**	**564**	**1,597**	**12,484**	**35,369**	**2,261**	**37,630**
Balance at 31 December 2016	**19,720**	**-1,550**	**2,554**	**564**	**1,549**	**13,091**	**35,928**	**2,118**	**38,046**
Profit for the period	0	0	0	0	0	2,978	2,978	-262	2,716
Other comprehensive income	0	0	0	0	259	0	259	0	259
Transactions with owners									
Exercise of share options	0	153	0	0	0	0	153	0	153
Dividend distribution	0	0	0	0	0	-1,384	-1,384	-1,104	-2,488
Reduction of share capital	-1,457	48	0	25	0	0	-1,384	0	-1,384
Total transactions with owners	**-1,457**	**201**	**0**	**25**	**0**	**-1,384**	**-2,615**	**-1,104**	**-3,719**
Balance at 30 September 2017	**18,263**	**-1,349**	**2,554**	**589**	**1,808**	**14,685**	**36,550**	**752**	**37,302**

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 Pärnu mnt 158/1, Tallinn 11317, Estonia. Nordecon AS's majority shareholder and the party controlling Nordecon Group is AS Nordic Contractors that holds 50.99% of the shares in Nordecon AS. The Nordecon AS shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The condensed consolidated interim financial statements as at and for the period ended 30 September 2017 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 2016.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2016.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the third quarter and first nine months of 2017 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.

Changes in presentation of information
In previous periods, the Group presented segment reporting for four segments: Buildings (European Union), Buildings (Ukraine), Infrastructure (European Union), and Other segments. The board of Nordecon AS decided to adjust the Group's segment reporting to its new internal reporting structure, which monitors the Group's operations in terms of two main operating segments. As a result, the segment reporting in the Group's financial statements was changed and from 1 January 2017 segment reporting is presented for two operating segments, Buildings and Infrastructure, as outlined in the segment reporting structure disclosed in note 8.

The prior period comparative information presented in these condensed consolidated interim financial statements for the third quarter and first nine months of 2017 has been adjusted accordingly.

NOTE 2. Trade and other receivables

EUR '000	Note	30 September 2017	31 December 2016
Current items			
Trade receivables		29,543	12,905
Retentions receivable		841	491
Receivables from related parties		14	19
Loans provided to related parties	14	253	275
Miscellaneous receivables		313	276
Total receivables and loans provided		**30,964**	**13,966**
Due from customers for contract work		16,319	7,089
Total current trade and other receivables		**47,283**	**21,055**

EUR '000	Note	30 September 2017	31 December 2016
Non-current items			
Loans provided to related parties	14	8,867	10,351
Other non-current receivables		460	465
Total non-current trade and other receivables		**9,327**	**10,816**

NOTE 3. Inventories

EUR '000	30 September 2017	31 December 2016
Raw materials and consumables	4,017	4,074
Work in progress	8,754	5,060
Goods for resale and properties held for development	11,330	12,671
Finished goods	2,370	1,187
Total inventories	**26,471**	**22,992**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first nine months of 2017, the Group acquired new property, plant and equipment of 2,072 thousand euros (9M 2016: 3,241 thousand euros). Additions comprised equipment and construction machinery required for the Group's operating activities.

Proceeds from the sale of property, plant and equipment amounted to 48 thousand euros (9M 2016: 97 thousand euros) (see the statement of cash flows) and associated sales gain amounted to 1 thousand euros (9M 2016: 88 thousand euros) (note 12).

Intangible assets

In the first nine months of 2017, the Group did not conduct any significant transactions with intangible assets.

NOTE 5. Borrowings

Short-term borrowings

EUR '000	Note	30 September 2017	31 December 2016
Short-term portion of long-term loans		8,630	2,495
Short-term portion of finance lease liabilities	6	1,728	2,070
Short-term bank loans		6,167	1,732
Factoring liabilities		5,000	0
Total short-term borrowings		**21,525**	**6,297**

Long-term borrowings

EUR '000	Note	30 September 2017	31 December 2016
Long-term portion of long-term bank loans		3,141	9,436
Derivative financial instruments		15	21
Long-term portion of finance lease liabilities	6	4,345	3,645
Total long-term borrowings		**7,501**	**13,102**

NOTE 6. Finance and operating leases

EUR '000	30 September 2017	31 December 2016
Finance lease liabilities at end of reporting period	**6,073**	**5,715**
Of which payable not later than 1 year	1,728	2,070
Of which payable later than 1 year and not later than 5 years	4,345	3,645
Base currency EUR	6,073	5,662
Base currency UAH	0	53
Interest rates of contracts denominated in EUR [1]	2.0%-3.9%	2.0%-3.9%
Interest rates of contracts denominated in UAH	-	20.0%
Frequency of payments	Monthly	Monthly

[1] Includes leases with floating interest rates

Finance lease payments

EUR '000	9M 2017	9M 2016
Principal payments made during the period	1,758	1,831
Interest payments made during the period	124	120

Operating lease payments

EUR '000	9M 2017	9M 2016
Operating lease payments made for cars	661	619
Operating lease payments made for construction equipment	2,508	2,008
Operating lease payments made for premises	558	512
Operating lease payments made for IT equipment and software	200	139
Total operating lease payments	**3,927**	**3,278**

NOTE 7. Earnings per share

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

EUR '000	9M 2017	9M 2016
Profit for the period attributable to owners of the parent	2,978	2,437
Weighted average number of shares (in thousands)	30,913	30,757
Basic earnings per share (EUR)	0.10	0.08
Diluted earnings per share (EUR)	0.10	0.08

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. The board 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 (construction of buildings)
- Infrastructure (construction of infrastructure assets)

Reportable operating segments comprise the provision of construction services in the buildings segment and the infrastructure segment.

Preparation of segment reporting

The prices applied in inter-segment transactions do not differ significantly from market prices. The chief operating decision maker reviews inter-segment 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 the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). Items after the gross profit of an operating segment (including 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, inter-segment transactions are conducted on regular market terms, which do not differ significantly from the terms applied in transactions with third parties.

9 months

EUR '000 9 months 2017	Buildings	Infrastructure	Total
Total revenue	130,619	42,303	172,922
Inter-segment revenue	-1	0	-1
Revenue from external customers	**130,618**	**42,303**	**172,921**
Gross profit of the segment	**5,602**	**1,654**	**7,256**

EUR '000 9 months 2016	Buildings	Infrastructure	Total
Total revenue	96,647	34,923	131,570
Inter-segment revenue	0	0	0
Revenue from external customers	**96,647**	**34,923**	**131,570**
Gross profit of the segment	**7,846**	**1,277**	**9,123**

Third quarter

EUR '000 Q3 2017	Buildings	Infrastructure	Total
Total revenue	46,036	24,443	70,479
Inter-segment revenue	0	0	0
Revenue from external customers	**46,036**	**24,443**	**70,479**
Gross profit of the segment	**2,032**	**1,643**	**3,675**

EUR '000 Q3 2016	Buildings	Infrastructure	Total
Total revenue	38,335	20,654	58,989
Inter-segment revenue	-5	0	-5
Revenue from external customers	**38,330**	**20,654**	**58,984**
Gross profit of the segment	**2,482**	**2,032**	**4,514**

Reconciliation of segment revenue

EUR '000	9M 2017	Q3 2017	9M 2016	Q3 2016
Total revenues for reportable segments	172,922	70,479	131,570	58,989
Elimination of inter-segment revenues	-1	0	0	-5
Other revenue	1,988	929	2,000	757
Total consolidated revenue	**174,909**	**71,408**	**133,570**	**59,741**

Reconciliation of segment profit

EUR '000	9M 2017	Q3 2017	9M 2016	Q3 2016
Total profit for reportable segments	7,256	3,675	9,123	4,514
Unallocated profit/loss	0	0	0	0
Other loss	-488	-46	-532	-76
Total gross profit	**6,768**	**3,629**	**8,591**	**4,438**
Unallocated expenses:				
Marketing and distribution expenses	-448	-114	-279	-61
Administrative expenses	-5,375	-2,297	-4,629	-1,847
Other operating income and expenses	-32	21	-391	-28
Operating profit	**913**	**1,239**	**3,292**	**2,502**
Finance income	2,802	2,598	336	101
Finance costs	-726	-298	-785	-319
Share of profit of equity-accounted investees	518	325	717	233
Profit before tax	**3,507**	**3,864**	**3,560**	**2,517**

NOTE 9. Segment reporting – geographical information

EUR '000	9M 2017	Q3 2017	9M 2016	Q3 2016
Estonia	165,776	69,123	123,697	55,095
Ukraine	1,763	510	3,163	1,521
Finland	2,293	538	1,851	882
Sweden	5,798	1,400	5,212	2,269
Elimination of inter-segment revenues	-721	-163	-353	-26
Total revenue	**174,909**	**71,408**	**133,570**	**59,741**

NOTE 10. Cost of sales

EUR '000	9M 2017	9M 2016
Cost of materials, goods and services	153,761	111,373
Personnel expenses	12,873	12,048
Depreciation expense	1,446	1,406
Other expenses	61	152
Total cost of sales	**168,141**	**124,979**

NOTE 11. Administrative expenses

EUR '000	9M 2017	9M 2016
Personnel expenses	3,470	2,850
Cost of materials, goods and services	1,737	1,626
Depreciation and amortisation expense	60	25
Other expenses	108	128
Total administrative expenses	**5,375**	**4,629**

NOTE 12. Other operating income and expenses

EUR '000	9M 2017	9M 2016
Other operating income		
Gain on sale of property, plant and equipment	1	88
Other income	97	60
Total other operating income	**98**	**148**

EUR '000	9M 2017	9M 2016
Other operating expenses		
Loss on sale and write-off of property, plant and equipment	10	0
Loss on doubtful and uncollectible receivables	37	97
Other expenses	83	442
Total other operating expenses	**130**	**539**

NOTE 13. Finance income and costs

EUR '000	9M 2017	9M 2016
Finance income		
Interest income on loans	275	318
Gain on disposal of investments in subsidiaries and a joint venture	2,527	3
Other finance income	0	15
Total finance income	**2,802**	**336**

EUR '000	9M 2017	9M 2016
Finance costs		
Interest expense	487	501
Foreign exchange loss	247	251
Other finance costs	-8	33
Total finance costs	**726**	**785**

The period's gain on disposal of investments in subsidiaries and a joint venture of 2,527 thousand euros was earned on a sales transaction conducted on 31 July 2017. Nordecon AS sold its 50% interest in the joint venture Unigate OÜ and its 100% investments in the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ.

NOTE 14. Transactions with related parties

The Group considers parties to be related if one has control of the other or significant influence over the other's operating decisions (assumes holding 20% or more of the voting power). Related parties include:

- Nordecon AS's parent company AS Nordic Contractors and its shareholders;
- other companies of AS Nordic Contractors group;
- equity-accounted investees (associates and joint ventures) of 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

EUR '000		9M 2017		9M 2016
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	234	0	266	0
Companies of AS Nordic Contractors group	2	4	2	4
Companies related to owners of AS Nordic Contractors	597	0	530	0
Equity-accounted investees	1,926	21	3,769	38
Companies related to members of the council	62	0	62	0
Total	**2,821**	**25**	**4,629**	**42**

EUR '000		9M 2017		9M 2016
Nature of transactions	Purchases	Sales	Purchases	Sales
Construction services	1,967	0	3,769	0
Goods	597	0	518	0
Lease and other services	195	25	280	42
Other transactions	62	0	62	0
Total	**2,821**	**25**	**4,629**	**42**

During the period, the Group recognised interest income on loans to associates of 200 thousand euros (9M 2016: 229 thousand euros), on loans to a joint venture of 68 thousand euros (9M 2016: 88 thousand euros) and on a loan to a company of AS Nordic Contractors group of 9 thousand euros (9M 2016: 9 thousand euros).

During the period under review, the Group received from the joint venture loan and interest settlements of 1,790 thousand euros (9M 2016: nil euros).

Receivables from and liabilities to related parties at period-end

	30 September 2017		31 December 2016	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	9	0	11
Companies of AS Nordic Contractors group – receivables	1	0	1	0
Companies of AS Nordic Contractors group – loans and interest	253	0	275	0
Companies related to owners of AS Nordic Contractors	0	4	0	31
Associates – receivables and liabilities	13	807	18	894
Associates – loans and interest	8,867	0	8,637	0
Joint venture – loans and interest	0	0	1,714	0
Total	**9,134**	**820**	**10,645**	**936**

Compensation provided to the council and the board

The service fees of the members of the council of Nordecon AS for the first nine months of 2017 amounted to 120 thousand euros and associated social security charges totalled 40 thousand euros (9M 2016: 145 thousand euros and 48 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 923 thousand euros and associated social security charges totalled 272 thousand euros (9M 2016: 480 thousand euros and 158 thousand euros respectively). The figures include termination benefits of 550 thousand euros paid to two board members in the third quarter and associated social security charges of 182 thousand euros (9M 2016: nil euros).

NOTE 15. Litigation and claims

Final judgment on the Aruvalla-Kose procurement contract

On 17 November 2014, venture partners Nordecon AS and Ramboll Eesti AS filed a statement of claim against the state, i.e., the Republic of Estonia, in connection with the contract for the procurement of the design and construction of the Aruvalla-Kose section of road E263. The customer, the National Road Administration, accepted all construction works related to the Aruvalla-Kose road section and confirmed that all works were completed on time and the outcome met the construction standards and regulations. The dispute concerned additional costs incurred because the application of a method for measuring the aggregate filtration module, which has a strong impact on road construction, was prohibited by the National Road Administration who unilaterally changed the contract performance terms, as well as the approvals it had previously granted, approximately a year after the conclusion of the contract. Nordecon AS took the position that the National Road Administration as a representative of a professionally operating state must act properly and unequivocally and observe the principles of good faith. Estonia's economic environment and companies need assurance that the state acts properly, giving an example for the private sector, and observes the rules it has accepted and implemented on the conclusion of a contract throughout the performance of that contract.

The contract for the construction of the Aruvalla-Kose road section was signed in spring 2011 and until August 2012 construction work was done using the filtration module measurement method (Sojuzdornii) specified in the work programme required by the contract, which the National Road Administration had unconditionally accepted. However, in 2012 the customer, the National Road Administration, changed the filtration measurement methodology and also applied it to the contract which had been signed earlier, ignoring the work programme it had previously accepted. In their statement of claim, Nordecon AS and Ramboll Eesti AS requested compensation for unforeseen costs incurred due to the change of the filtration measurement methodology of 3,495,604.70 euros plus late payment interest.

On 14 September 2016, Harju County Court rendered a judgment in which it found that Nordecon AS's claim was unfounded, dismissed the action and determined that the procedure costs were to be borne by Nordecon AS. On 13 October 2016, Nordecon AS filed an appeal with the circuit court. The circuit court changed the reasoning of the judgment rendered by Harju County Court substantially but dismissed the appeal by a ruling issued on 23 December 2016. On 23 January 2017, Nordecon AS lodged a cassation appeal with the Supreme Court in which it challenged the ruling of Tallinn Circuit Court of 23 December 2016. On 31 May 2017, the Supreme Court issued a ruling by which it refused to accept the cassation appeal. The ruling had no impact on the Group's financial results.

NOTE 16. Events after the reporting period

Additional profit distribution

The extraordinary general meeting which convened on 2 October 2017 decided to make an additional dividend distribution of 2,009 thousand euros in aggregate (0.065 euros per share). The general meeting decided to distribute additional dividends in connection with extra cash flow of 4,534 thousand euros derived from the disposal of investments in real estate development entities (joint venture Unigate OÜ and subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ). The dividend was paid out to shareholders on 23 October 2017.

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 third quarter and first nine months of 2017 and confirms that:

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

Erkki Suurorg	Acting Chairman of the Board		9 November 2017
Priit Luman	Member of the Board		9 November 2017
Maret Tambek	Member of the Board		9 November 2017
Ando Voogma	Member of the Board		9 November 2017