# NORDECON

Investor presentation

6m 2014

# Nordecon overview

# Nordecon in brief

## KEY FACTS

- Nordecon 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 currently in Estonia, Ukraine and Finland. The parent of the Group is Nordecon AS, a company registered and located in Tallinn, Estonia. In addition to the parent company, there are more than 10 subsidiaries in the Group
- Currently Nordecon employs more than 700 people
- Since 18 May 2006, the company's shares have been quoted in the main list of the NASDAQ OMX Tallinn Stock Exchange

# Nordecon in brief

**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 add value to 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 inspire our people to grow through needs-based training and career opportunities consistent with their experience. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

# Strategic agenda for 2014-2017

**Business activities**

- Our business operations in Estonia will be equally divided between two segments, building and infrastructure construction, where we will compete in all major sub-segments.
- Our chosen foreign markets are Finland, Ukraine, Latvia and Lithuania. In the first two, we will conduct our business through local subsidiaries. Entering the Latvian and Lithuanian construction market through local subsidiaries assumes an economic rationale and the earliest time for this will be 2015. Where economic rationale exists, we may also deliver construction services in our neighbouring countries (Latvia, Lithuania and Sweden) on a project basis.
- We will focus on our real estate development operations in Estonia (in Tallinn, Tartu, Pärnu and Narva).
- We will develop our energy efficiency and building information modelling (BIM) competencies as developments in these areas are likely to lead to a new quality standard in the construction market.
- We will build strategic alliances in areas where we lack competence.

# Strategic agenda for 2014-2017

**Group structure and organisation**

- The Group's structure is optimal and we are not going to change it unless significant changes take place in the construction market.
- We will continue consistent investment in our IT-capabilities and -integration both at the level of the organisation and the employee.
- We will apply additional measures for improving cooperation between Group entities and structural units.

**Financial targets**

- By 2017 our gross margin will be at least 8% and EBITDA margin at least 6%.
- Administrative expenses will not exceed 4% of annual revenue.
- We will distribute, whenever possible, at least 15% of profit before tax for the year as dividends.
- In Estonia, our own real estate development operations will generate up to 5% of total revenue.

# Business model

## BUILDINGS

- Industrial buildings
- Commercial buildings
- Public buildings
- Residential buildings

**OPERATIONAL ACTIVITIES**

## INFRASTRUCTURE

**Road construction and maintenance**

- road construction
- road maintenance

**Specialist engineering**

- bridges, viaducts
- port construction
- rail construction

**Other infrastructure**

- environmental engineering
- utility networks

# Group’s strengths

- An organisation with shareholders oriented towards long-term profitable growth
- A flexible, horizontally integrated business model across the Group
- Experienced management
- Professional and loyal employees
- Relative conservatism in risk-taking
- Selected support services centralised group wide (e.g. IT, legal) to streamline costs
- Revenue base aimed at dividing activities between buildings and infrastructure segments equally to minimise volume risk
- Group covers all main sub-segments in the construction markets

## Core Competencies

| | | | | |
|---|---|---|---|---|
| Road construction and maintenance | Environmental construction | Other infrastructure | Industrial, civil and commercial buildings | Real estate development |

# Nordecon financial information and key facts

6m 2014

# Period in brief

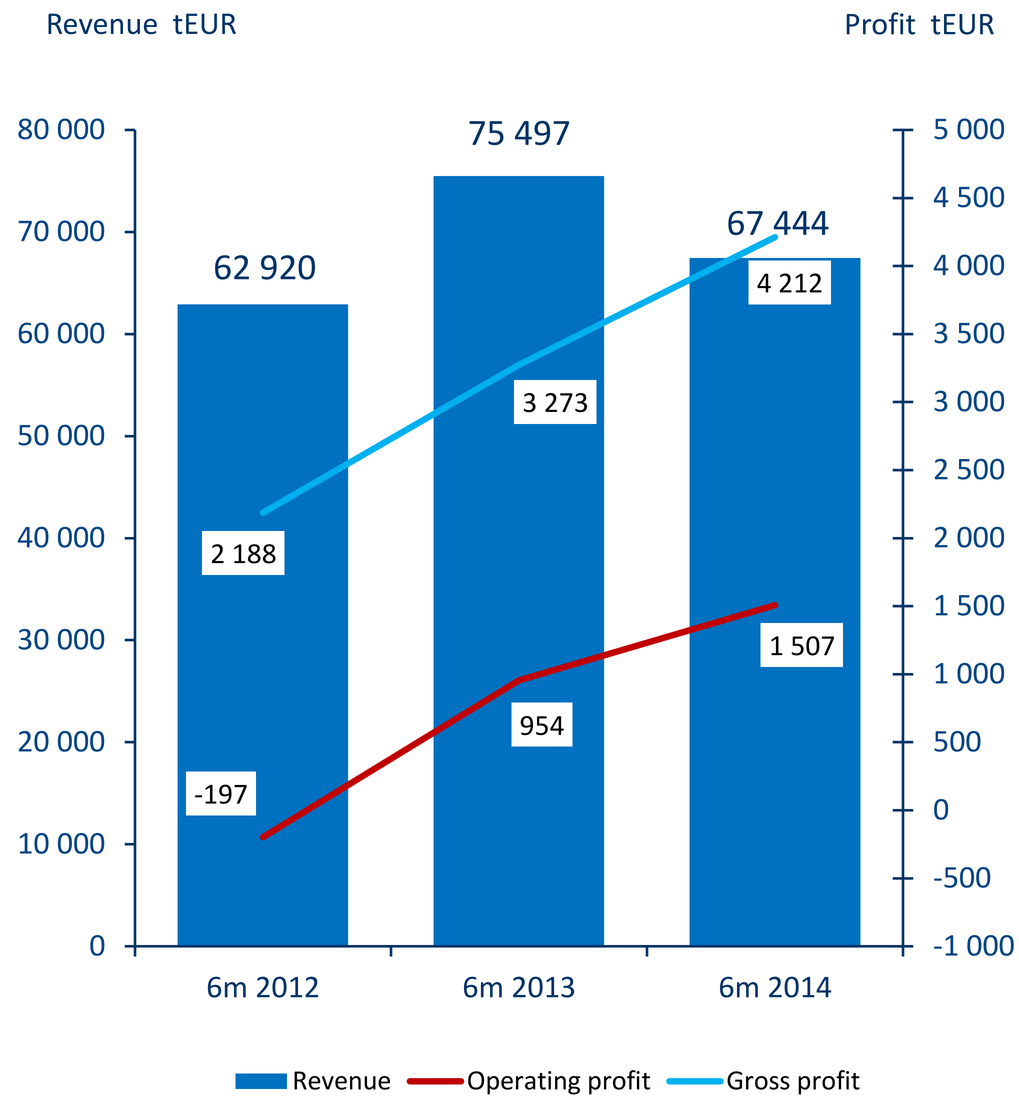
- Revenue below 2013 comparative figure by 11%. Caused by significant drop of sales in infrastructure segment as Group finished major projects in 2013 and slow start of new EU backed investments in 2014 (first year of 2014-2020 EU budget period).
- Gross margin improved compared to previous period (6.2% vs 4.3%), as is operating margin (2.2% vs 1.3%). Improvement of profitability started with revenues of projects signed in 2013 and it was maintained with projects additionally secured in 2014.
- Administrative expenses remained under control at 3.1% (12 months rolling) to revenue (2013: 3.0%) and are well below the strategic target of 4%.
- Exchange rate losses from Ukrainian subsidiaries amounted to 0.85 mEUR as hryvna weakened against the euro by 31% during the period.
- Order book decreased by 15% compared to 2013 as large (road construction) infrastructure projects were finished during 2013. However, good progress of order book compared to YE 2013, an increase of 36% as of 30 June 2014.
- Strong outside pressure on liquidity created by gap between the timing of receipts form (public sector) clients and payments to subcontractors.
- Refinancing of short-term loans finalised with banks and new short-term financing for 2014 secured.
- Dividends of 0.03 euros per share were paid in June 2014, first time since 2009.

# Key figures / ratios

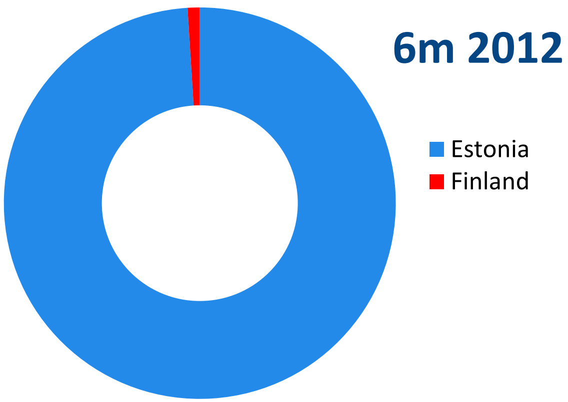
| Figure / Ratio | 6m 2014 | 6m 2013 |
|---|---|---|
| Revenue (tEUR) | 67,444 | 75,497 |
| Revenue growth/decrease, % | -11.0% | 20.0% |
| Net profit/loss (tEUR) | 454 | 812 |
| Gross margin, % | 6.2% | 4.3% |
| EBITDA margin, % | 3.6% | 2.6% |
| Net margin, % | 0.7% | 1.1% |
| Earnings per share (EUR) | 0.01 | 0.02 |
| Equity ratio, % | 33.8% | 27.3% |
| Administrative expenses to revenue (12 months rolling) | 3.1% | 3.0% |

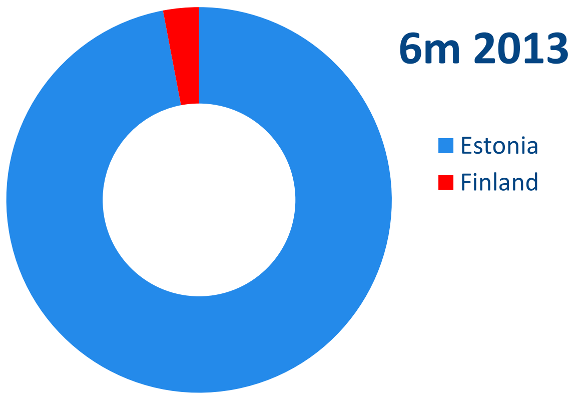
# Revenue and profit

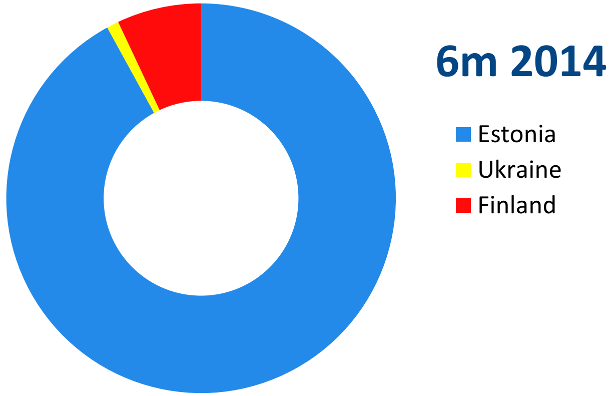
- Revenue decrease led by infrastructure segment. Large infrastructure (road construction) projects ended in 2013. Decreased public investments in 2014 as EU new budget period (2014-2020) begins slowly.
- Extent of infrastructure segment revenue decrease is emphasised by 55% increase of buildings segment revenue.
- Profit margins improved in second quarter as revenue includes both projects signed in 2013 and 2014 where the projects with improved margins were continuously secured.
- A mild winter also helped to earn better margins in segments where majority of the works are performed in outdoor conditions as well as increased volumes begin to cover the fixed costs of infrastructure segment.
- Total marketing and administrative expenses higher 0.35 mEUR than in 2013. Marketing expenses included 0.2 mEUR one-off expenses related to Nordecon's 25 year anniversary.



# Revenue by geographic regions



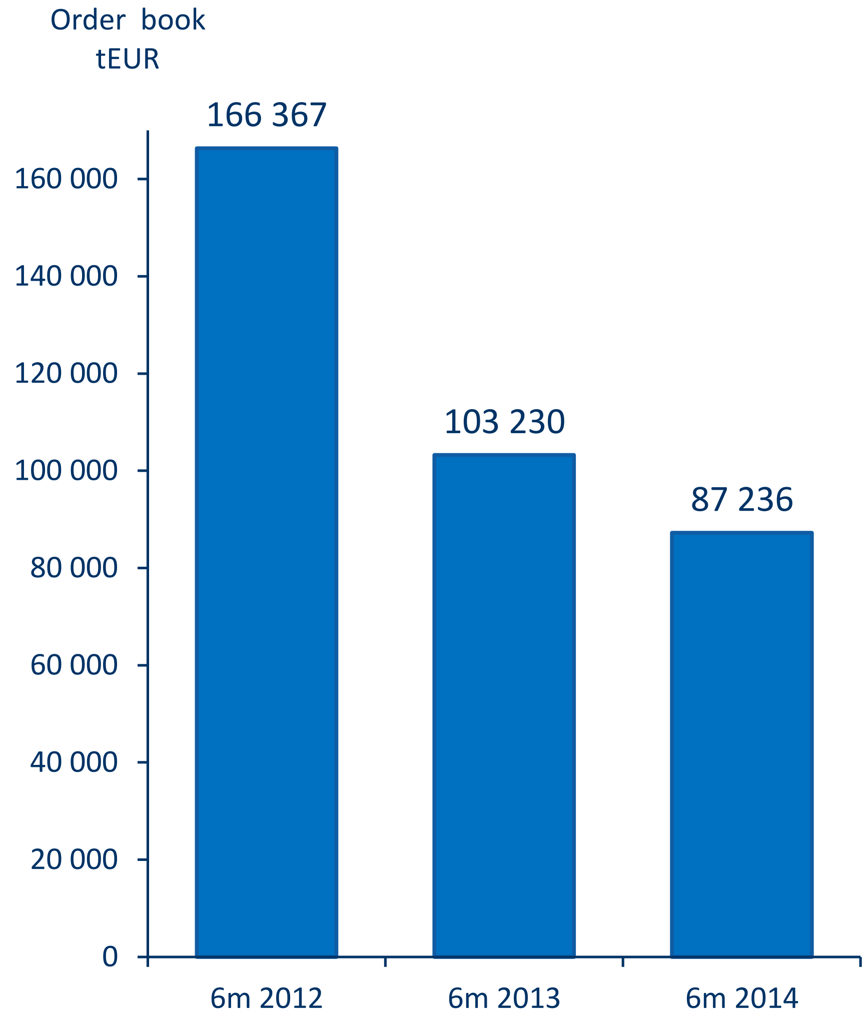




| | 6m 2012 | 6m 2013 | 6m 2014 |
|---|---|---|---|
| Estonia | 99% | 98% | 93% |
| Finland | 1% | 2% | 6% |
| Ukraine | 0% | 0% | 1% |

- The chosen foreign markets are Finland, Ukraine, Latvia and Lithuania
- Main focus to remain in Estonia
- Business in Finland remains limited to existing sub-segment (concrete works)
- In Ukraine ability to start again maintained
- Entering Latvian and Lithuanian markets through subsidiaries when economic rational exists, but not before 2015

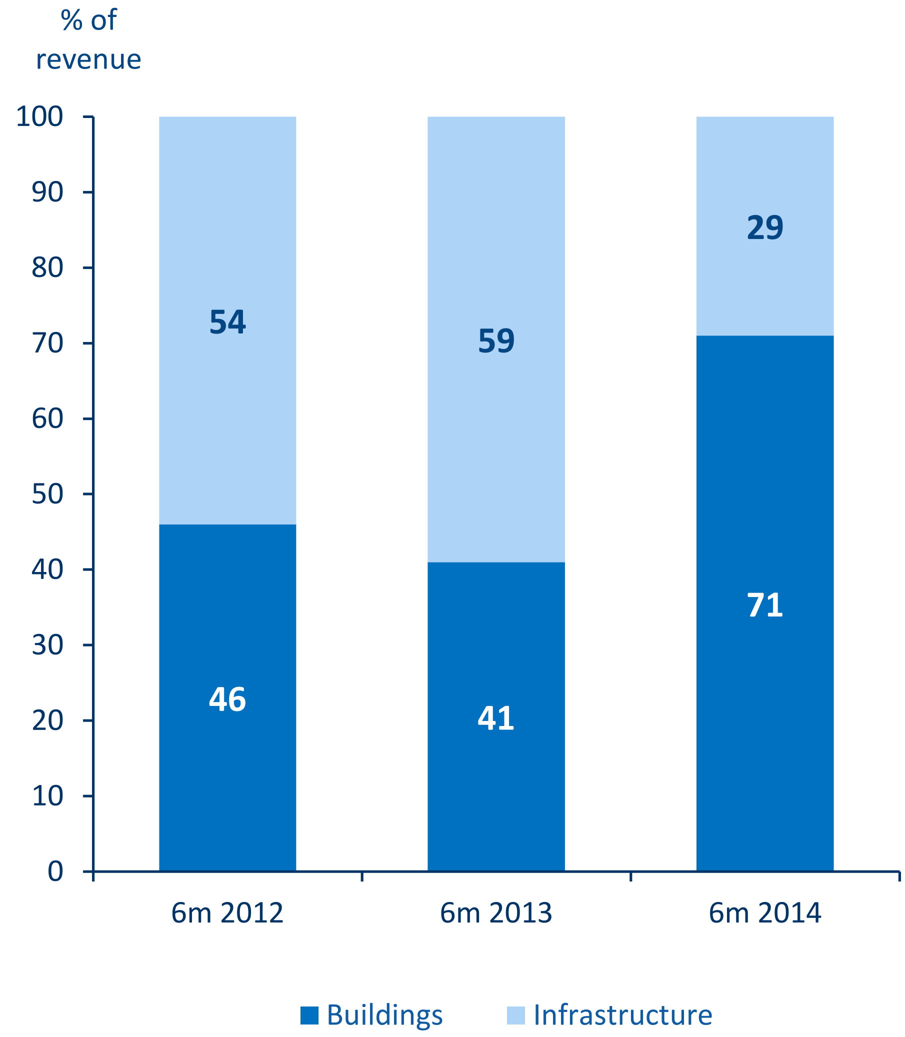
# Order book

- Order book has decreased due to gradual performance of major contracts secured in 2011-2012. Public investments backed by EU to infrastructure have been decreasing since 2013 and remain at this in 2014 as EU new budget period (2014-2020) begins slowly. Private investments volumes unable to compensate this fully.
- First time since Q1 2008 buildings segment orders exceed infrastructure ones (67% and 33% resp.). This structure likely to remain for 2014 and forward thus resulting in decreased revenue in infrastructure segment.
- Management's priority is not to increase or maintain the achieved level of revenue of 2013 in a condition where the public investments are expected to shrink in 2014. The focus must remain on improving profitability.
- Management does not consider present decline in the order book to be critical. Based on historical experience, it is quite typical that a significant portion of budgeted operating volumes is secured through new contracts signed during the year.
- Order book grew by approx. 23 mEUR (36%) during 1HY 2014 when compared to YE 2013 figure.



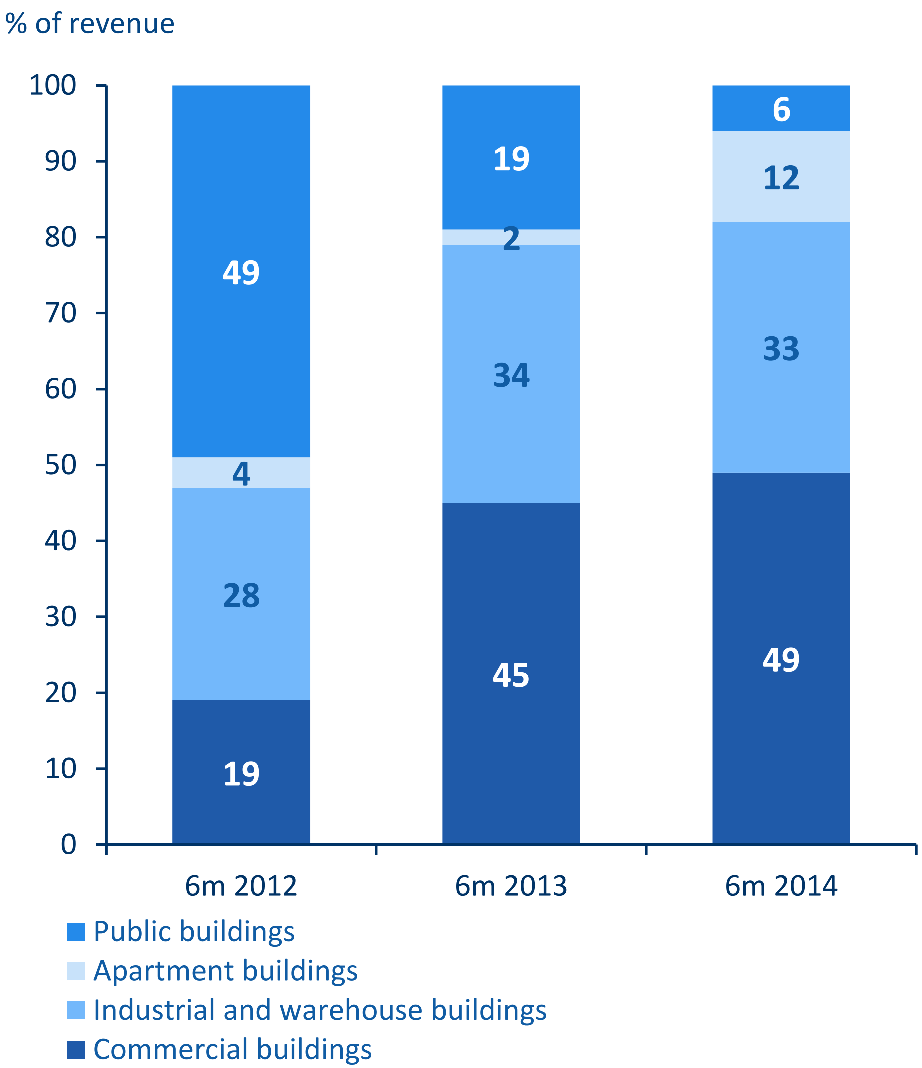
# Revenue distribution by segments

- Finishing of major road construction projects in 2013 and overall decrease of EU backed public investments to infrastructure led to sharp decrease of infrastructure segment revenue.
- Private sector investments to buildings segment have increased significantly. An increase of 55% in segment's total revenue.
- Structure likely to remain at this in 2014 as order book similarly structured.



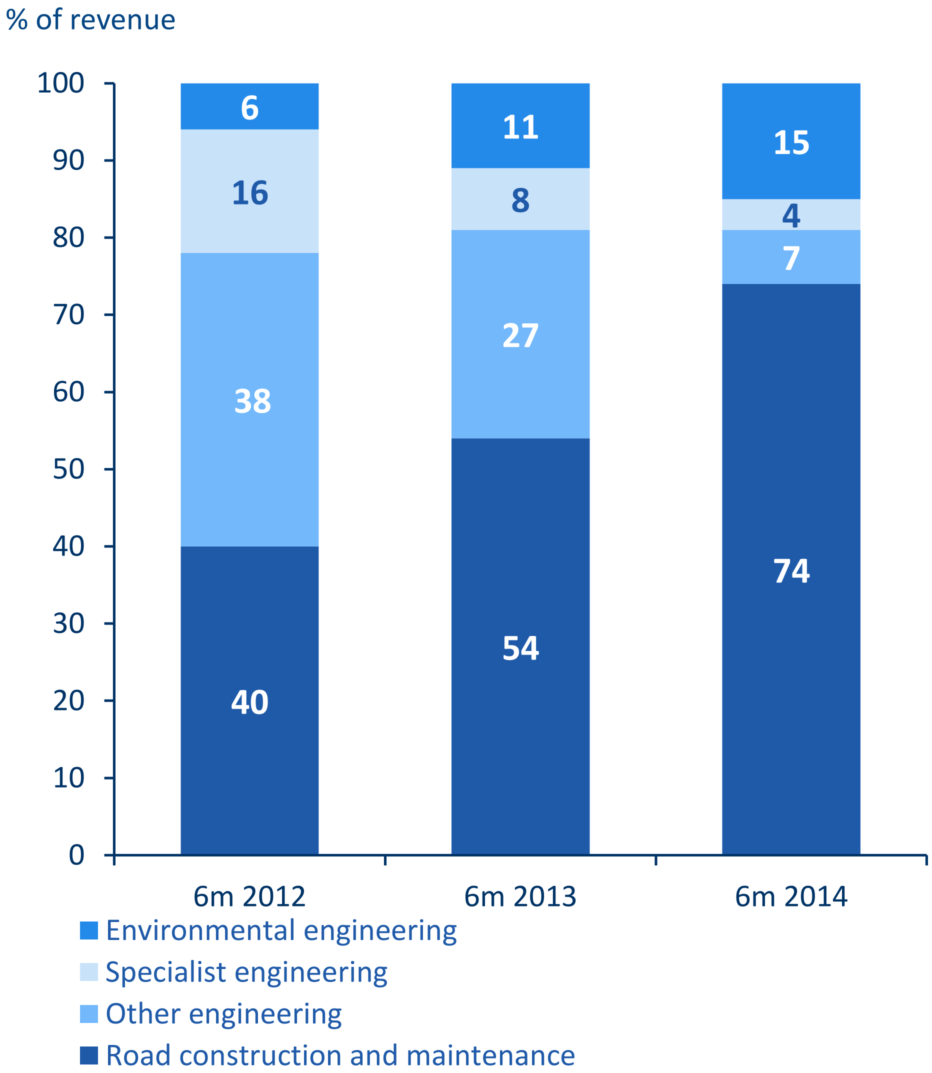
# Revenue distribution – buildings

- Private investments are dominating the buildings segment as public investments account only approx. 6% of revenue.
- EU backed public investments not decreasing as much as in infrastructure segment. Still competition in public tenders very intense. Nordecon is avoiding risks related to low bidding prices. Share of revenue from public buildings has therefore continuously decreased during first two quarters of 2014.
- Investments to commercial and industrial buildings remained at current levels thus compensating for declining infrastructure segment.
- Magasini 29 own development (www.magasini.ee) phase II started in spring, expected to finish in 2014. New development project started in Tartu (www.tammelinn.ee) where two new buildings with a total of 35 apartments will be completed by the end of 2014. As no sales took place in 1HY 2014, no revenue is yet recognised.

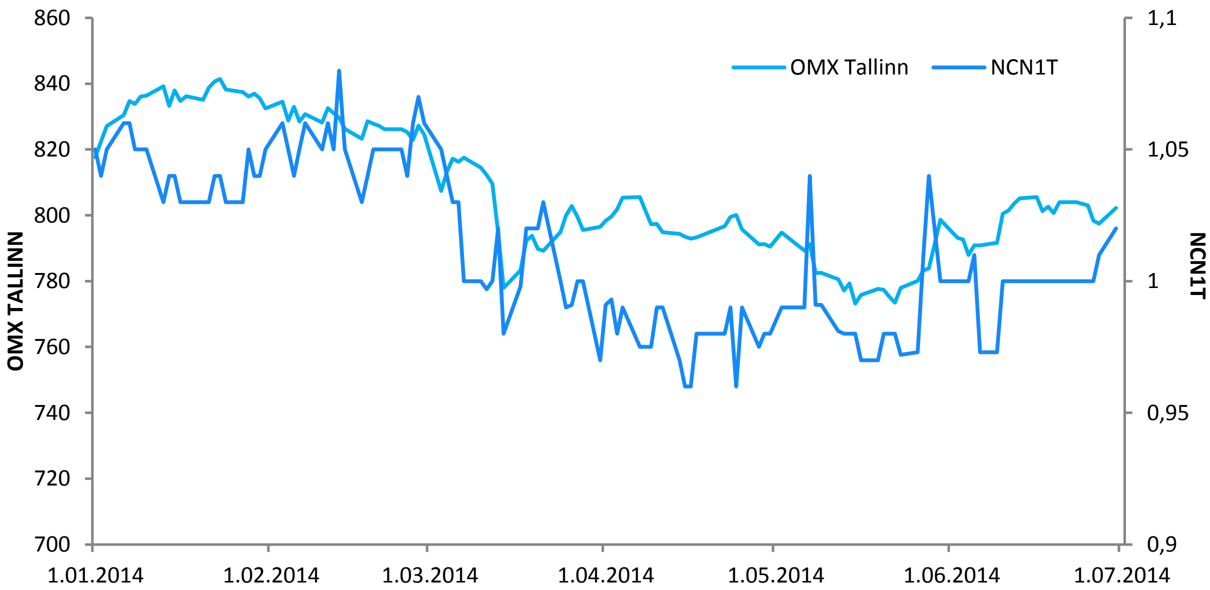


# Revenue distribution – infrastructure

- Environmental infrastructure got more funding from EU during last years of 2007-2013 budget period. Nordecon secured in 2013 many environmental engineering contracts that have been completed in 2014, therefore the decrease in this sub-segment.
- Specialist engineering share decreasing as major port construction contracts were nearly finished in 2013. New large investments in port construction or other complex engineering projects are irregular.
- EU supported utility networks (other engineering) construction volumes declining as the projects from 2007-2013 EU budget are being completed. Addition of new contracts in the first year of the new budget period (2014-2020) are considerably smaller than in previous years.
- Road construction and maintenance sub-segment is the main revenue source, whereas the average cost of the contracts has fallen and 2013 volumes not to be met. Road maintenance revenues remain stable.



# Share and shareholders information




| Index/share | 1.01.2014 | 30.06.2014 | +/-% |
|---|---|---|---|
| OMX Tallinn | 817.72 | 802.26 | -1.89 |
| NCN1T | 1.05 EUR | 1.02 EUR | -2.86 |

### Largest shareholders of Nordecon AS at 30 June 2014

| Shareholder | Number of shares | Ownership interest (%) |
|---|---|---|
| AS Nordic Contractors | 16,507,464 | 53.67 |
| Luksusjaht AS | 3,041,874 | 9.89 |
| ING Luxembourg S.A. | 2,007,949 | 6.53 |
| SEB Pank AS clients | 657,500 | 2.14 |
| State Street Bank and Trust Omnibus Account A Fund | 567,464 | 1.85 |
| Rondam AS | 540,000 | 1.76 |
| ASM Investments OÜ | 519,600 | 1.69 |
| Ain Tromp | 478,960 | 1.56 |
| SEB Elu- ja pensionikindlustus AS | 262,700 | 0.85 |
| Genadi Bulatov | 250,600 | 0.81 |

### Shareholder structure of Nordecon AS by ownership interest at 30 June 2014

| | Number of shareholders | Ownership interest (%) |
|---|---|---|
| Shareholders with interest exceeding 5% | 3 | 70.09 |
| Shareholders with interest between 1% and 5% | 5 | 8.99 |
| Shareholders with interest below 1% | 1,839 | 20.92 |
| **Total** | **1,847** | **100.00** |

# Contact Information

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