



Investor presentation

12m 2016

# 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, Finland and Sweden. 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
- In 2016, Nordecon has employed 684 people on average, including 381 as engineers and technical personnel
- Since 18 May 2006, the company's shares have been quoted in the main list of the NASDAQ 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 2016-2020

## **Business activities until 2020**

- The Group will grow, mostly organically, with a focus on 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.

## Strategic agenda for 2016-2020

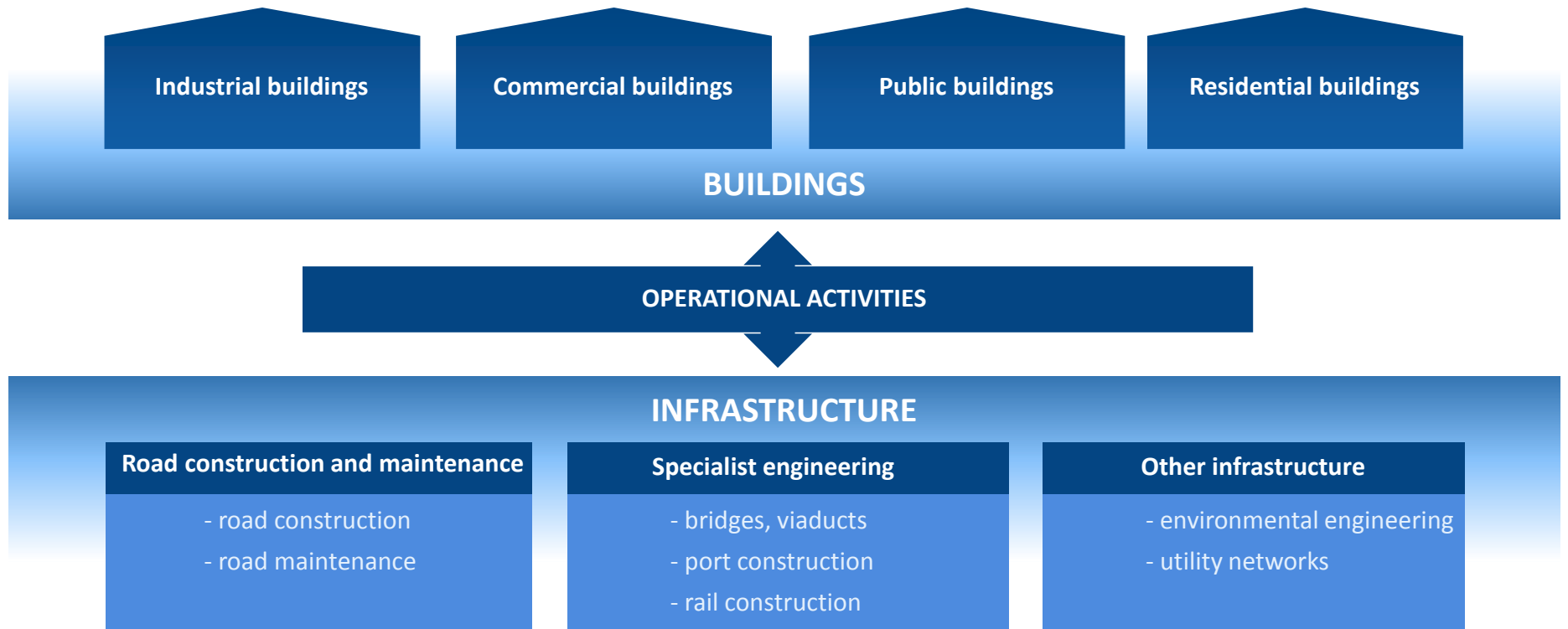
### Employees until 2020

- 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 at least 10% per year.
- The contribution of foreign markets will increase to 25% of revenue.
- Our own housing development revenue will account for at least 5% of our Estonian revenues.
- Operating margin per year will be consistently above 3%.
- On average, at least 30% of profit for the year will be distributed as dividends.
- Return on invested capital (ROIC) will average 13%.

## Business model



## 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

12m 2016

## Period in brief

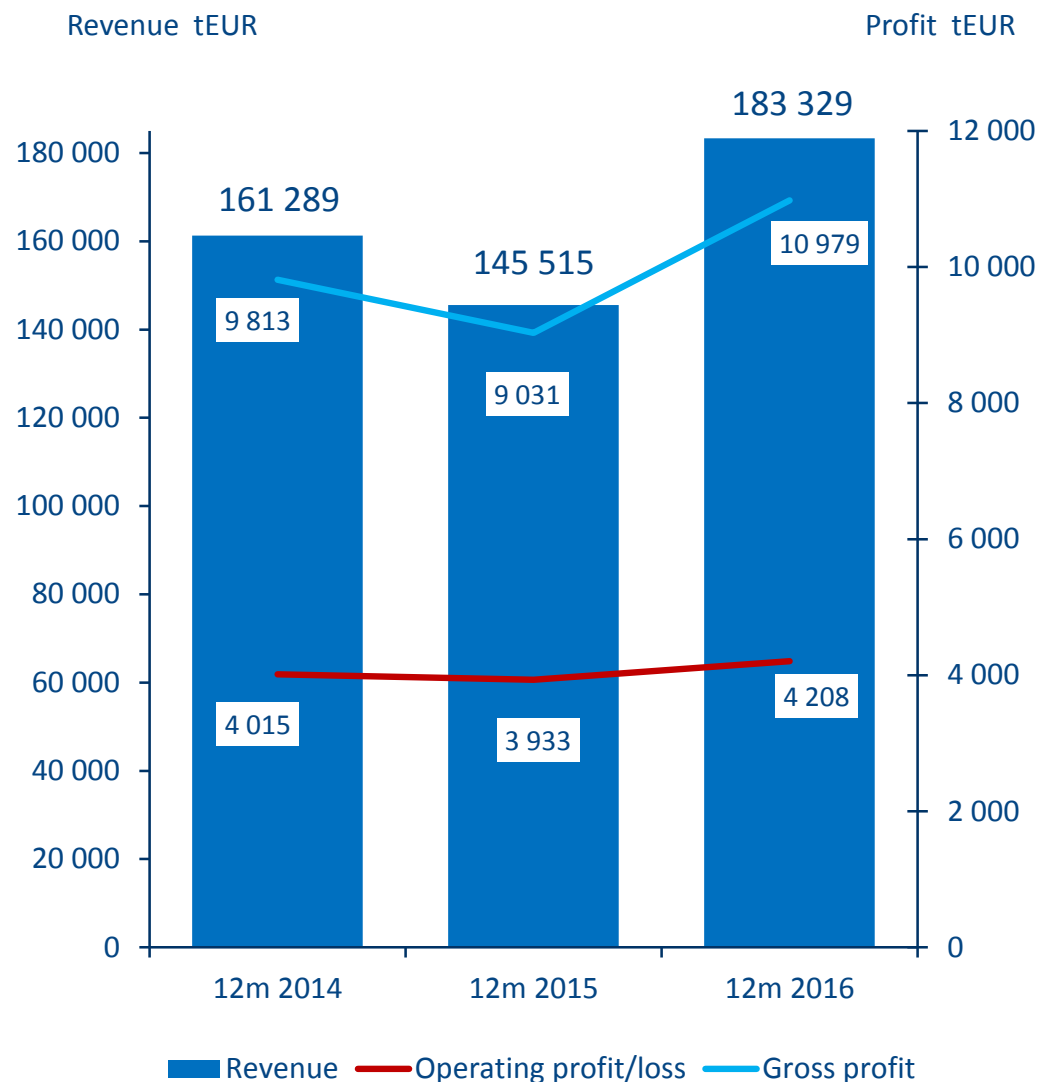
- Nordecon's revenue for 2016 amounted to 183,329 thousand euros, a roughly 26% increase on the 145,515 thousand euros generated in 2015.
- Gross margin declined slightly as compared to previous period (6.0% vs 6.2%), as did operating margin (2.3% vs. 2.7%). The margins weakened due to a sharp fall in the gross margin of the Infrastructure segment which could not be offset by a rise in the gross margin delivered by the Buildings segment.
- Administrative expenses in general remained under control at 3.3% to revenue (2015: 3.5%) and are well below the strategic target of 4%.
- Operating profit for the period was influenced by the write-down of other receivables by 409 thousand euros in connection with the entry into force of the final judgement in the Group's dispute with Teede REV-2 AS over the performance of the Koidula border crossing point contract in 2010 where our then venture partner ceased to fulfil its obligations and we had to complete the contract on our own.
- At 31 December 2016, the Group's order book stood at 131,335 thEur, a roughly 4% increase year over year.
- At the end of 2016, subsidiaries Hiiu Teed OÜ and Järva Teed AS as well as Nordecon AS's road maintenance and machinery division were merged to improve the Infrastructure segment's operating efficiency and the Group's overall competitiveness.

## Key figures / ratios

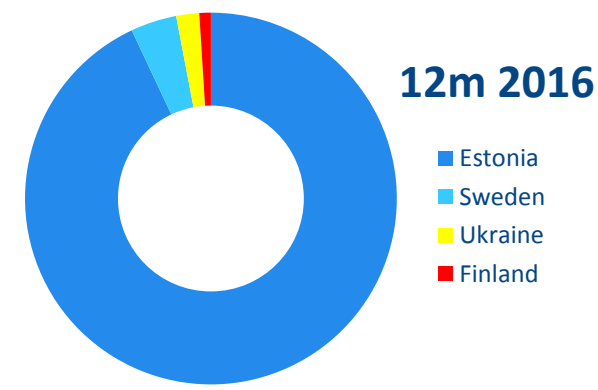
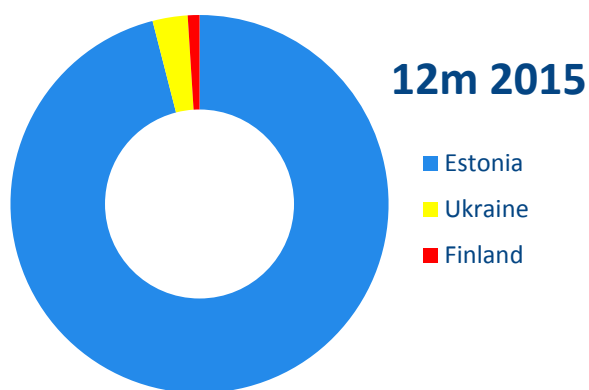
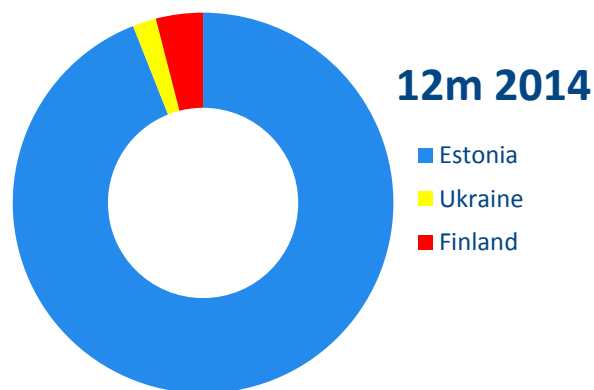
Figure / Ratio	12m 2016	12m 2015
Revenue (tEUR)	183,329	145,515
Revenue growth/decrease, %	26,0%	-9.8%
Net profit (tEUR)	3,933	174
Gross margin, %	6.0%	6.2%
EBITDA margin, %	3.3%	4.0%
Net margin, %	2.1%	0.1%
Earnings per share (EUR)	0.10	0.01
Equity ratio, %	38.6%	40.1%
Administrative expenses to revenue (12 months rolling)	3.3%	3.5%

## Revenue and profit

- Revenue in the Buildings segment (+43%) has increased primarily thanks to contracts secured in the apartment buildings and the public buildings sub-segments.
- Revenue decrease in the Infrastructure segment (-13%) resulted from the lack of large-scale road construction projects.
- In 2016, the gross margin of the Infrastructure segment was 3.6% (2015: 8.6%) and that of the Buildings segment 7.5% (2015: 6.7%).
- The key reasons for the margin decline are the facts that during the winter season there is a lack of demand for the segment's services (major earthworks, etc.) and that due to its business logic the share of the segment's fixed costs is large.
- Administrative expenses for 2016 grew to 6,106 thousand euros (2015: 5,026 thousand euros) due to expansion to the Swedish market, but the ratio of administrative expenses to revenue was 3.3% (2015: 3.5%).



## Revenue by geographic regions

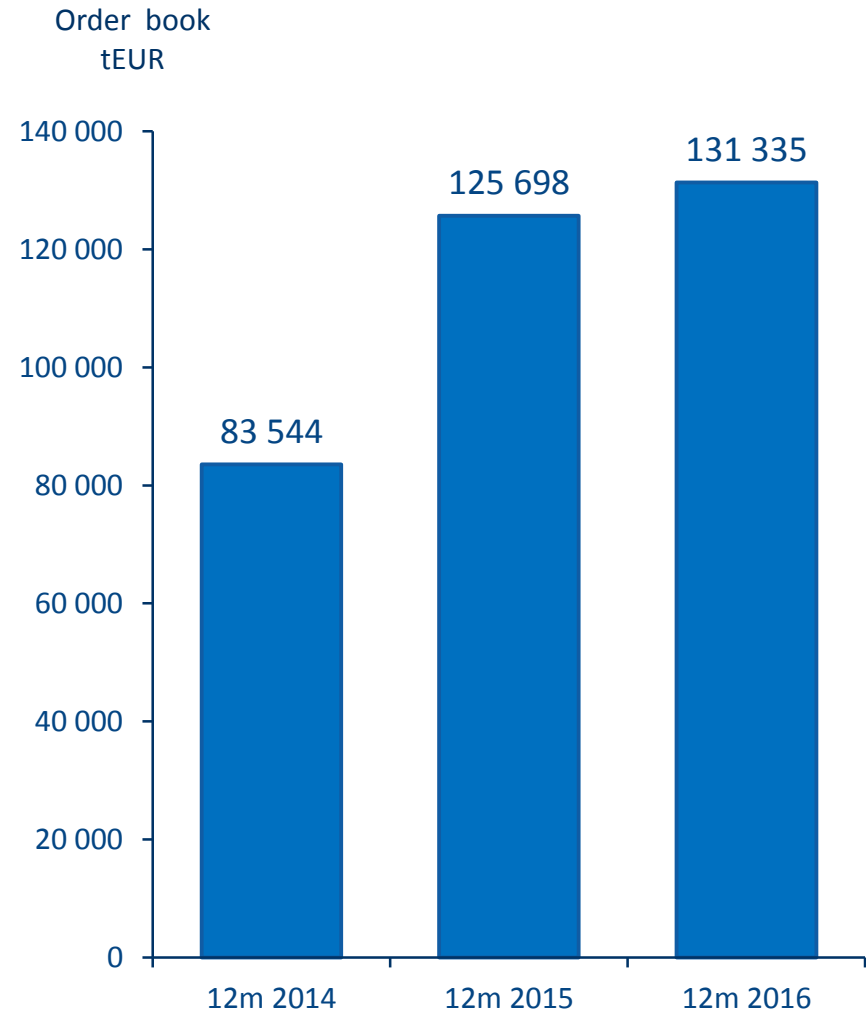


	12m 2014	12m 2015	12m 2016
Estonia	94%	96%	93%
Sweden	0%	0%	4%
Ukraine	2%	3%	2%
Finland	4%	1%	1%

- In 2016, Nordecon earned around 7% of its revenue outside Estonia compared with 4% in the last year.
- The contribution of foreign markets has increased through revenue generated in Sweden where the Group has contracts for the construction of two apartment buildings.
- The contribution of the Ukrainian market where we are performing two large building construction contracts has remained relatively stable.
- Finnish revenues result from concrete works in the building construction segment.
- Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market.

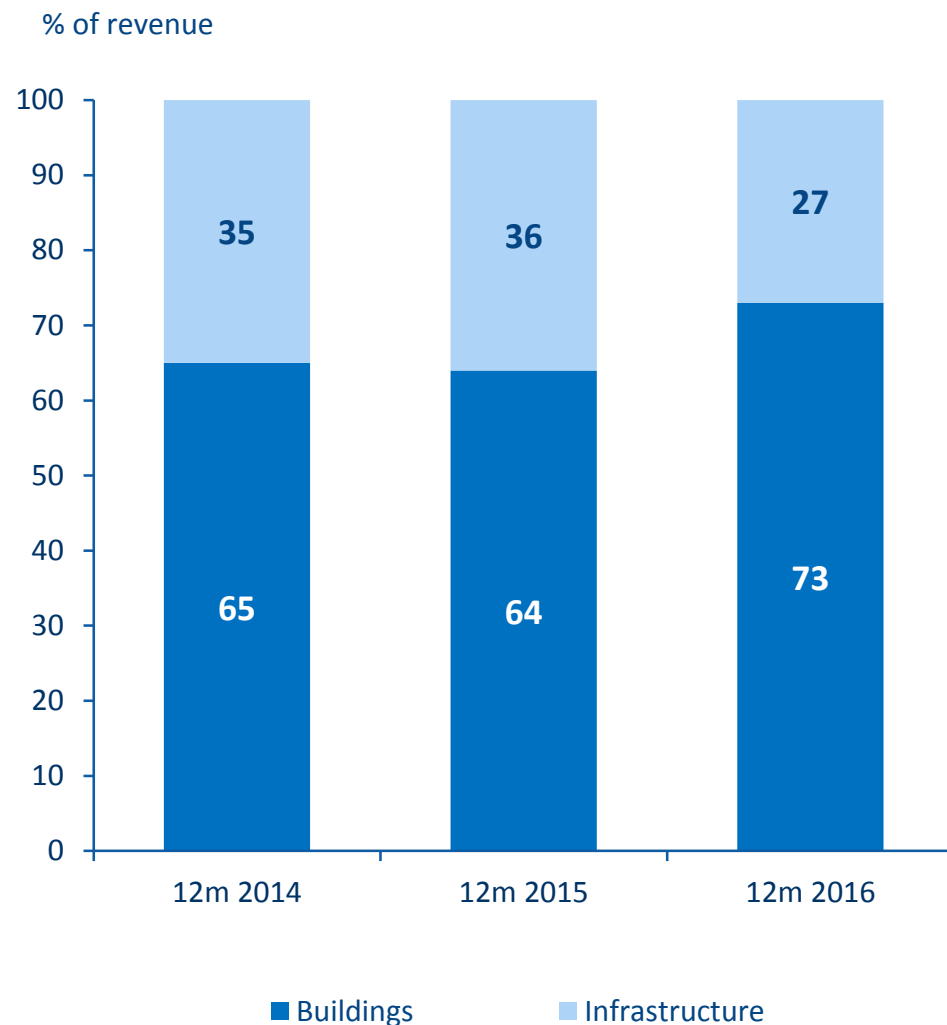
# Order book

- At 31 December 2016, the Group’s order book stood at 131,335 thousand euros, a 4% increase year over year. Altogether, in 2016 the Group secured new contracts of 158,152 thousand euros.
- Compared with 2015, the order book of the Buildings segment has grown by around 9%, with increase in commercial buildings and decrease in industrial and warehouse facilities sub-segments.
- Compared with 2015, the order book of the Infrastructure segment has decreased by 8%. 90% of the segment’s order book is made up of work secured by the road construction and maintenance sub-segment whose order book has remained more or less stable compared with the year before.
- Buildings segment orders continuously exceed infrastructure ones (76% and 24% resp.). This structure likely to remain the same for 2017.
- In the light of the size of our order book and developments in our chosen markets, we are moderately optimistic about our business volumes in 2017. In an environment of stiff competition, we pursue the policy of avoiding unjustified risks whose realisation in the contract performance phase would probably have an adverse impact on our results.



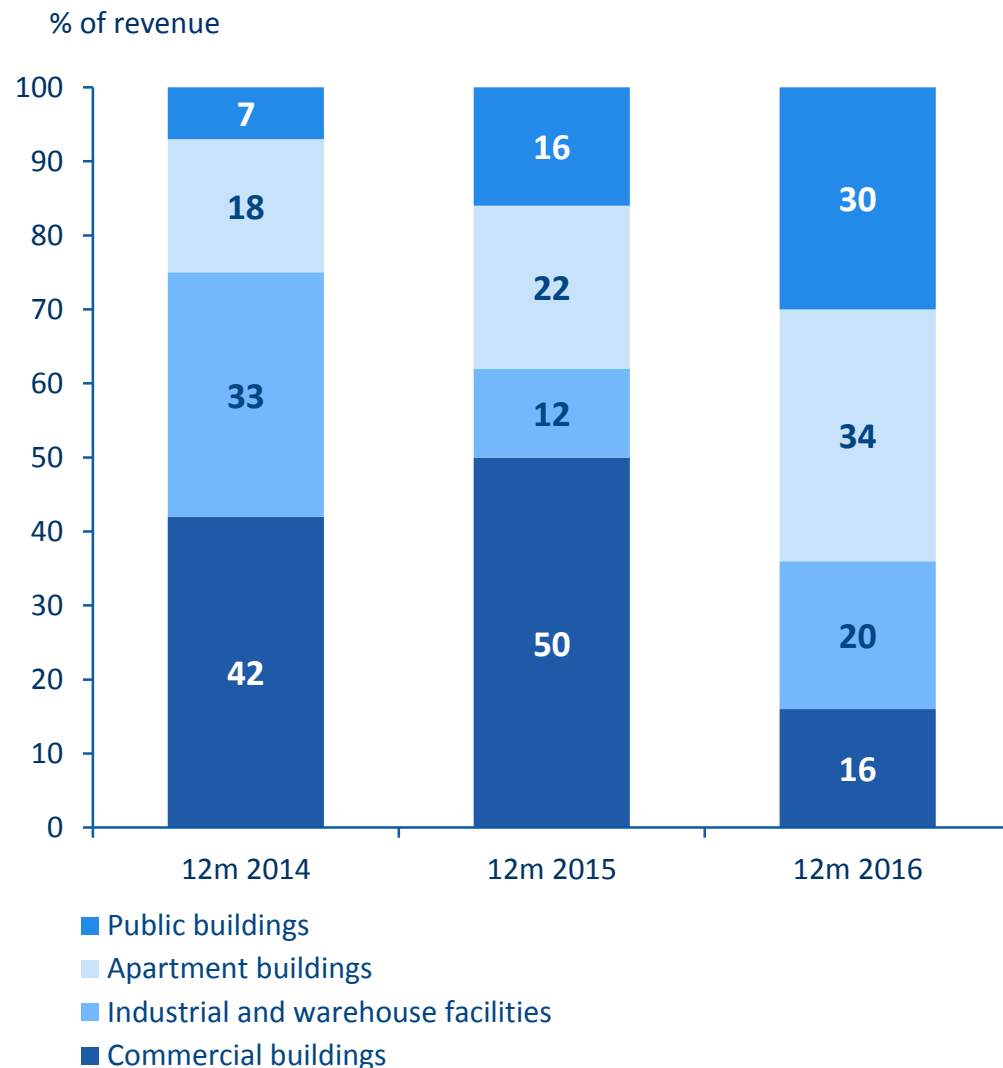
## Revenue distribution by segments

- 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 also in stressed circumstances where one segment experiences noticeable shrinkage.
- However, the overall decrease of EU backed public investments to infrastructure led to sharp decrease of infrastructure segment revenue.
- The revenues of the Buildings segment grew +43% as anticipated while those of the Infrastructure segment decreased -13%.
- The overall downturn in infrastructure construction also left its mark on our revenue structure.
- Nordecon's revenue structure reflects quite fairly the overall situation in the Estonian construction market. Structure likely to remain at this in 2017 as order book similarly structured.



## Revenue distribution – buildings

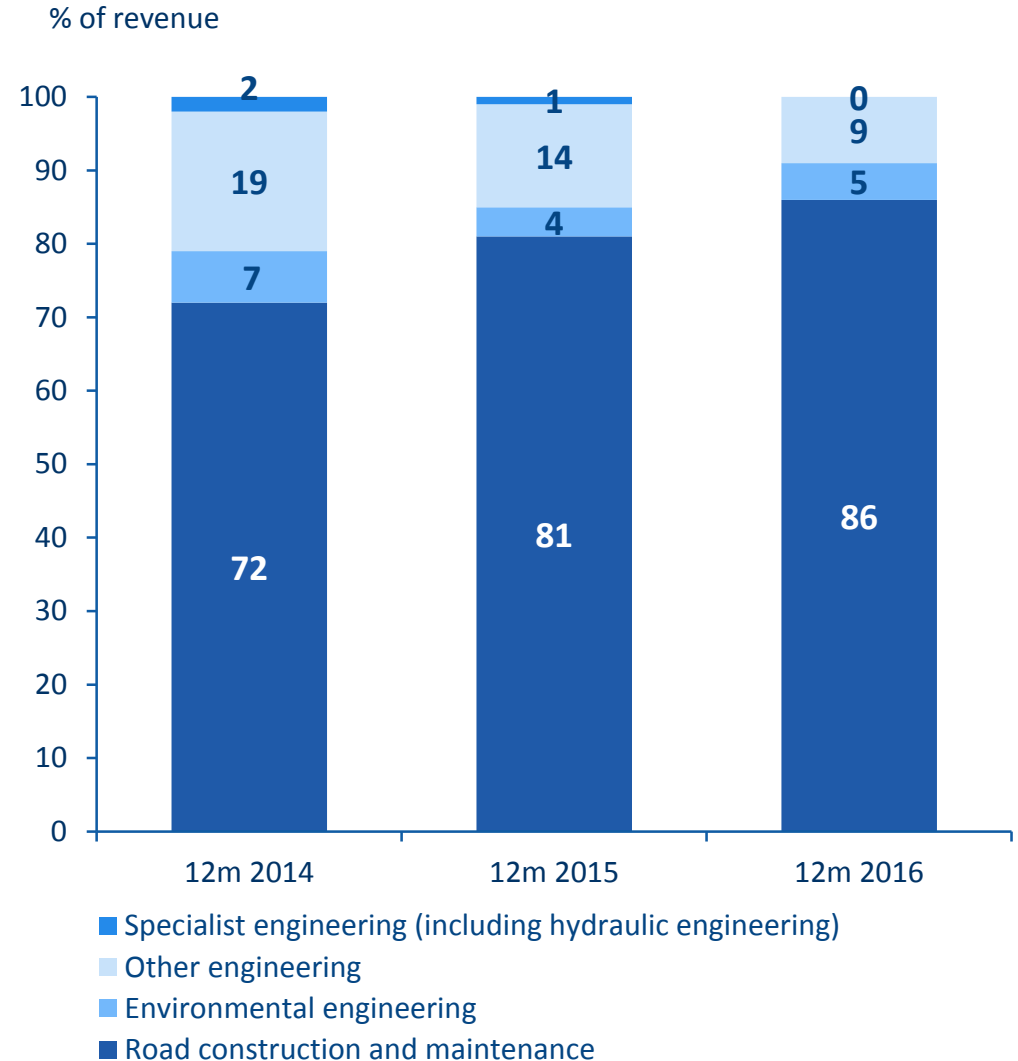
- Compared with the same period last year, the revenue structure of the Buildings segment has changed considerably.
- The public buildings' sub-segments growth was underpinned by the state's increasing investment in national defence.
- Most of our apartment building revenue resulted from general contracting in Tallinn with additional projects in Kiev and Stockholm.
- The contribution of our own development projects in Tartu ([www.tammelinn.ee](http://www.tammelinn.ee)) and Tallinn ([www.magasini.ee](http://www.magasini.ee)) continues to increase as well, with 2016 revenues of 5.2 mEur (2015: 4.2 mEur).
- The volumes of the industrial and warehouse facilities sub-segment grew year on year. Private investment in industrial and warehouse buildings has increased.
- The volumes of the commercial buildings sub-segment, which used to dominate the Buildings segment for a long time, declined considerably.



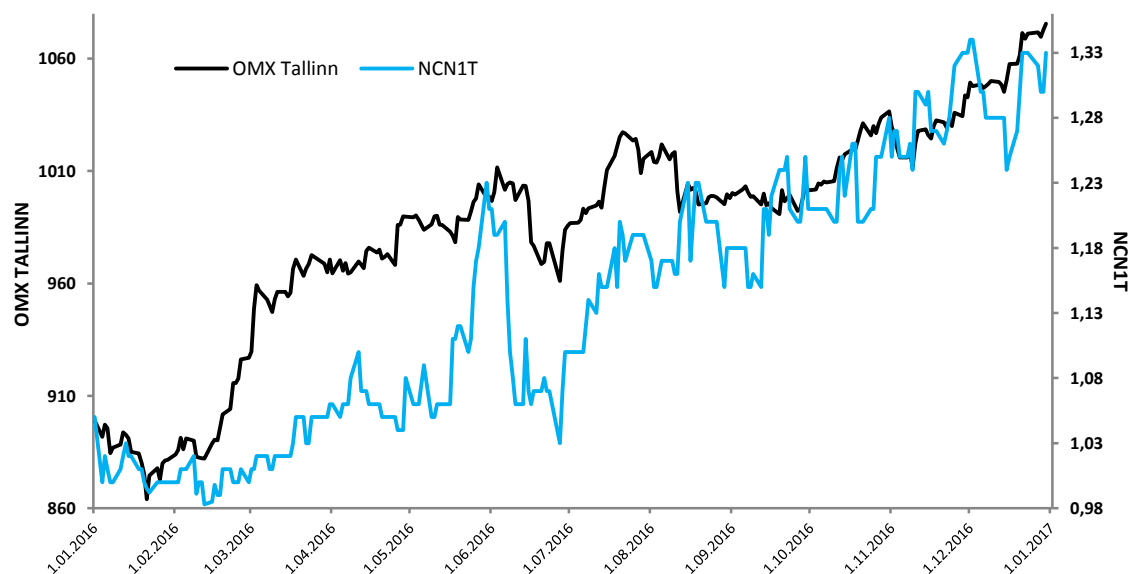


## Revenue distribution – infrastructure

- Road construction to remain the main revenue source in the infrastructure segment. Most of the road construction revenue to result from small or medium-sized reconstruction and repair projects.
- We continued to deliver road maintenance services in the Järva and Hiiu counties and the Keila and Kose maintenance areas in Harju county.
- A decrease in EU support continues to affect our other engineering (utility network construction) and environmental engineering sub-segments whose revenues have decreased by around one third year on year.
- In specialist engineering, no sign of any major hydraulic engineering investments in the current year. The addition of other complex engineering projects also likely to be irregular.
- Thanks to a new asphalt concrete plant acquired at the beginning of the year, we were able to more than double our asphalt concrete sales (2,062 thousand euros vs 899 thousand euros).



## Share and shareholders information



Index/share	1.01.2016	31.12.2016	+/-%
OMX Tallinn	898.99	1,075.50	19.63%
NCN1T	1.05 EUR	1.33 EUR	26.67%

### Largest shareholders of Nordecon AS at 31 December 2016

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,225,282	13.05
ING Luxembourg S.A.	2,007,949	6.20
SEB Pank AS clients	1,036,040	3.20
Rondam AS	1,000,000	3.09
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
Ain Tromp	378,960	1.17
SEB Elu- ja Pensionikindlustus AS	255,000	0.79
Genadi Bulatov	250,600	0.77

### Shareholder structure of Nordecon AS by ownership interest at 31 December 2016

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	70.24
Shareholders with interest between 1% and 5%	5	10.45
Shareholders with interest below 1%	1,501	14.31
Holder of own (treasury) shares	1	5.00
<b>Total</b>	<b>1,510</b>	<b>100</b>

## Contact Information

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