NORDECON

Financial report for the first quarter of 2017

(unaudited)

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Business name	Nordecon AS
Registration number	10099962
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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 – 31 March 2017
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Jaano Vink (chairman of the board), Avo Ambur, Priit Luman, Erkki Suurorg, Maret Tambek
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 are involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

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

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 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 at least 10% per year.
- The contribution of foreign markets 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%.
- On average, we will 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. In the first quarter of 2017 our business volumes in Ukraine were comparable to those of 2016. Although the conflict between Ukraine and Russia which broke out at the beginning of 2014 continued to influence Ukraine's political and economic environment also in the first quarter of 2017, the Ukrainian hryvnia/euro exchange rate remained relatively stable. In recent years, our bidding activities in Ukraine have been intentionally conservative, with work undertaken in the capital Kiev and the surrounding area only. 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 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 risks until the situation 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 property 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 continues to develop its organisation and active sales activities for winning new contracts.

Group structure

The Group's structure as at 31 March 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, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, Kalda Kodu OÜ, Magasini 29 OÜ, Eurocon OÜ, Kastani Kinnisvara OÜ, Eurocon Bud TOV, and Nordecon Statyba UAB and the associates Unigate OÜ, 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 completed 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 started to use in spring 2017.

Financial review

Financial performance

Nordecon Group ended the first quarter of 2017 with a gross profit of 624 thousand euros (Q1 2016: 1,153 thousand euros) and a gross margin of 1.5% (Q1 2016: 4.2%). The gross margin weakened year on year due to stiffer competition. We drew attention to the fact that changes in the market situation would put pressure on profitability already in 2016. We earned our first-quarter gross profit in the building construction segment although the gross margin of our Buildings segment dropped to 4.1% (Q1 2016: 10.7%). The decline in profitability is partly attributable to the loss of the Swedish subsidiary, which incurred some costs in the final stage of its first building construction contract which were not fully foreseen on entering the new market. Our results in the infrastructure construction segment were expectedly modest although the loss of our Infrastructure segment decreased compared with a year earlier. The main reasons for the segment's loss were its lack of self-performed work (major earthworks, etc.) during the winter season and a large share of uncovered fixed costs.

Administrative expenses for the first quarter of 2017 totalled 1,457 thousand euros. Compared with a year earlier, administrative expenses grew slightly (Q1 2016: 1,292 thousand euros) but the ratio of administrative expenses to revenue (12 months rolling) decreased to 3.2% (Q1 2016: 3.6%). Although we made changes to the Group's structure and continued investing in foreign markets which unavoidably and expectedly increases administrative expenses in the start-up phase, 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.

Operating loss for the first quarter of 2017 amounted to 992 thousand euros (Q1 2016: an operating loss of 213 thousand euros). EBITDA was negative at 503 thousand euros (Q1 2016: positive at 233 thousand euros).

During the period, the euro/Ukrainian hryvnia exchange rate was relatively stable and our exchange losses from adverse movements in the euro/Ukrainian hryvnia exchange rate were considerably smaller than a year earlier. In the first quarter, the Ukrainian currency weakened against the euro by around 1.9%, 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 49 thousand euros (Q1 2016: 291 thousand euros).

The Group's net loss amounted to 1,086 thousand euros (Q1 2016: a net loss of 409 thousand euros), of which net loss attributable to owners of the parent, Nordecon AS, was 1,087 thousand euros (Q1 2016: 570 thousand euros).

Cash flows

In the first quarter of 2017, operating activities produced a net cash outflow of 6,647 thousand euros (Q1 2016: an outflow of 2,818 thousand euros). Negative operating cash flow is typical of the first quarter and stems from the cyclical nature of the construction business. In the second quarter, larger fixed costs and preparations made for more active construction operations, particularly in the infrastructure segment, cause outflows to exceed inflows. In addition, operating cash flow is influenced by a mismatch between the settlement terms agreed with customers and subcontractors and the fact that neither public nor private sector customers are required to make advance payments while we have to make prepayments to subcontractors, materials suppliers, etc. We deal with equalising the settlement terms agreed with customers and suppliers on a daily basis, mostly through factoring. In addition to factoring accounts receivable, we have concluded a frame agreement for reverse factoring which enables our subcontractors who do not have sufficient credit standing to obtain a factoring limit from a financing institution to use our limit.

Investing activities produced a net cash inflow of 138 thousand euros (Q1 2016: an outflow of 88 thousand euros). The largest items were payments for property, plant and equipment of 33 thousand euros (Q1 2016: 103 thousand euros) and dividends received of 147 thousand euros (Q1 2016: 3 thousand euros).

Financing activities generated a net cash inflow of 2,640 thousand euros (Q1 2016: an inflow of 808 thousand euros). Financing cash flows were strongly influenced by loan and lease transactions. Proceeds from loans received totalled 3,430 thousand euros, consisting of use of overdrafts and development loans (Q1 2016: 1,562 thousand euros). Compared with a year ago, there was slight growth in finance lease payments which totalled 480 thousand euros (Q1 2016: 395 thousand euros). The rise in finance lease payments is attributable to large-scale investments in road construction equipment (including the acquisition of a new asphalt concrete plant) made in the second quarter.

At 31 March 2017, the Group's cash and cash equivalents totalled 5,917 thousand euros (31 March 2016: 4,236 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	Q1 2017	Q1 2016	Q1 2015	2016
Revenue (EUR '000)	41,604	27,731	27,113	183,329
Revenue change	50.0%	2.3%	15.2%	26.0%
Net loss/profit (EUR '000)	-1,086	-409	-1,354	3,933
Net loss/profit attributable to owners of the parent (EUR '000)	-1,087	-570	-1,284	3,044
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	-0.04	-0.02	-0.04	0.10
Administrative expenses to revenue	3.5%	4.7%	4.1%	3.3%
Administrative expenses to revenue (rolling)	3.2%	3.6%	3.4%	3.3%
EBITDA (EUR '000)	-503	233	-285	6,017
EBITDA margin	-1.2%	0.8%	-1.1%	3.3%
Gross margin	1.5%	4.2%	1.5%	6.0%
Operating margin	-2.4%	-0.8%	-2.8%	2.3%
Operating margin excluding gain on asset sales	-2.4%	-0.8%	-3.1%	2.2%
Net margin	-2.6%	-1.5%	-5.0%	2.1%
Return on invested capital	-1.5%	-0.5%	-2.0%	8.5%
Return on equity	-2.9%	-1.1%	-3.8%	10.6%
Equity ratio	35.6%	40.5%	38.8%	38.6%
Return on assets	-1.1%	-0.5%	-1.4%	4.2%
Gearing	29.3%	28.8%	35.5%	16.7%
Current ratio	1.01	1.02	1.01	1.20
As at	**31 March 2017**	**31 March 2016**	**31 March 2015**	**31 Dec 2016**
Order book (EUR '000)	130,109	120,702	72,689	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 quarter of 2017, Nordecon earned around 9% of its revenue outside Estonia compared with 7% in the same period last year.

	Q1 2017	Q1 2016	Q1 2015	2016
Estonia	91%	93%	95%	93%
Sweden	6%	3%	0%	4%
Finland	2%	1%	2%	1%
Ukraine	1%	3%	3%	4%

The proportion of revenue generated in the Swedish market increased considerably compared with a year earlier. We continued to build two apartment buildings and started preparations for the design and construction of a third one. Although the proportion of revenue generated in Ukraine decreased, the amount of Ukrainian revenues remained comparable to the first quarter of 2016. In Ukraine, most of the revenue resulted from one large building construction contract. Our Finnish revenues resulted from concrete works in the building construction segment.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on one market. However, conditions in some of our 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 our 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 when the operating volumes of a sub-segment fall sharply.

Nordecon's revenue for the first quarter of 2017 amounted to 41,604 thousand euros, a roughly 50% increase on the 27,731 thousand euros generated in the first quarter of 2016. Revenues increased in both the Buildings and the Infrastructure segment. The general contraction of the infrastructure construction market has also influenced our revenue structure. In the first quarter of 2017, our Buildings segment and Infrastructure segment generated revenue of 36,711 thousand euros and 4,487 thousand euros respectively. The corresponding figures for the first quarter of 2016 were 24,411 thousand euros and 3,108 thousand euros (see note 8). Our order book has a similar structure: at the end of the first quarter 77% of contracts secured but not yet performed was attributable to the Buildings segment (Q1 2016: 70%).

Operating segments*	Q1 2017	Q1 2016	Q1 2015	2016
Buildings	89%	88%	78%	73%
Infrastructure	11%	12%	22%	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 strongest revenue contributors were the apartment buildings and the public buildings sub-segments where most of the Group's revenue resulted from general contracting. In Estonia, a substantial share of our apartment building projects is located in Tallinn. In the first quarter, the main revenue contributors were the Meerhof 2.0 apartment building complex at Pirita tee 20a and apartment buildings at Kopli 4a, Kopli 6 and Virbi 10. The contributions 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 continued to build two apartment buildings and began preparations for the design and construction of a third, 8-floor apartment building in Stockholm.

We continue to build our own developments (reported in the apartment buildings sub-segment) in both Tartu and Tallinn. We have completed 5 apartment buildings in the first four phases of our Tammelinn project in Tartu and sales have been highly successful. By the reporting date, all completed apartments were sold. In the first quarter of 2017, we began building phase V which comprises a four-floor apartment building with 24 apartments and launched preparations for phase VI (www.tammelinn.ee). In phase V, which will be completed in August 2017, 23 of the 24 apartments are covered with pre-sale agreements or reservations and in phase VI, which will be completed in December 2017, around half of the apartments have already been reserved. In the first quarter, we completed the fifth and last terraced house in our Magasini 29 development project in Tallinn (www.magasini.ee). We continue to build two apartment buildings with a total of 30 apartments in Hane street in Tallinn. In carrying out our development activities, we monitor carefully potential risks in the housing development market that stem from rapid growth in the supply of new housing as well as a relative increase in input prices.

The key factor which influenced the results of the public buildings sub-segment was growth in the state's investment in national defence. In the first quarter, we continued the design and construction of the Lintsi warehouse complex and the construction of a depot, infrastructure for armoured vehicles, a canteen and a barracks at the Tapa military base. In addition, we delivered to the customer Ugala Theatre in Viljandi.

The revenues of the commercial buildings sub-segment grew somewhat compared with the first quarter of 2016. We continued to build the office and retail complex Viimsi Äritare and an office building at Lõõtsa 12 in Ülemiste City and to renovate the machinery hall of the historical Luther furniture factory into a modern office building. Based on our order book, we expect the commercial buildings sub-segment to post year-on-year revenue growth.

The revenues of the industrial and warehouse facilities sub-segment decreased year on year. The period's largest projects were the construction of Harmet's production and warehouse facilities at Kumna, near Tallinn, the construction of a co-generation plant at Kehra and phase III (fourth floor) in the reconstruction of the pig fattening unit of Rakvere Farmid AS (EKSEKO). We began preparations for building the Metsä Wood plywood factory in Pärnu.

Revenue breakdown in Buildings segment	Q1 2017	Q1 2016	Q1 2015	2016
Apartment buildings	33%	28%	19%	34%
Public buildings	28%	35%	12%	30%
Commercial buildings	26%	20%	58%	16%
Industrial and warehouse facilities	13%	17%	11%	20%

For a long time, the main revenue source in the Infrastructure segment has been road construction and in the first quarter of 2017 its revenue contribution (compared to a year earlier) grew even further. We continued to render road maintenance services in the Järva and Hiiu counties and the Keila and Kose maintenance areas of the Harju county. The period's road construction projects were small: we continued the reconstruction of Logi street in Tallinn and construction work at the Old City Harbour. A large share of the period's revenues resulted from forest road improvement services provided to the State Forest Management Centre. We believe that road construction will remain the main revenue source in the Infrastructure segment through 2017. In contrast to the two previous years, when most of the segment's revenues resulted from small or medium-sized reconstruction or rehabilitation projects, this year we have two large contracts: construction of a 2+1 road (a road with passing lanes) on the Äasmäe-Kohatu section of the Tallinn-Pärnu-Ikla road which was secured at the end of 2016 and reconstruction of the Haabersti intersection which was secured after the end of the reporting period in April 2017.

The contracts secured by the environmental engineering and other engineering (utility network construction) sub-segments are small and 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 engineering work also tends to be irregular.

Revenue breakdown in Infrastructure segment	Q1 2017	Q1 2016	Q1 2015	2016
Road construction and maintenance	82%	65%	79%	86%
Other engineering	10%	30%	15%	9%
Environmental engineering	8%	5%	5%	5%
Specialist engineering (including hydraulic engineering)	0%	0%	1%	0%

Order book

At 31 March 2017, the Group's order book (backlog of contracts signed but not yet performed) stood at 130,109 thousand euros, an 8% increase year on year.

For the period	31 March 2017	31 March 2016	31 March 2015	31 Dec 2016
Order book (EUR '000)	130,109	120,702	72,689	131,335

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 77% and 23% of the Group's order book respectively (31 March 2016: 70% and 30% respectively).

Compared with a year earlier, the order book of the Buildings segment has grown by around 18%. The order books of the commercial buildings and the industrial and warehouse facilities sub-segments have increased substantially, the first one primarily through contracts for the construction of an office building at Lõõtsa 12 and a multi-storey car par at Lõõtsa 11 in Ülemiste City in Tallinn and the Martens house in Pärnu. 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. The order books of the public buildings and the apartment buildings sub-segments have decreased slightly but the order book of the apartment buildings sub-segment is still the largest. The order book of the apartment buildings sub-segment is influenced by large contracts secured in 2016 including projects for the construction of the Meerhof 2.0 apartment building complex at Pirita tee 20a, apartment buildings at Virbi 10 and Sõjakooli 12, and five apartment buildings in the city of Brovary in the Kiev region in Ukraine. At the beginning of 2017, we secured a contract for building an eight-floor apartment building (Väsby Terrass) in Sweden. The largest contracts in the order book of the public buildings sub-segment are those for the construction of a depot, infrastructure for armoured vehicles, a canteen and a barracks for the Tapa military base.

Compared with a year ago, the order book of the Infrastructure segment has decreased by around 16%. 83% of the segment's order book is made up of work awarded to the road construction and maintenance sub-segment whose order book has also decreased slightly compared with a year earlier. A major project in the road construction portfolio is the contract signed for building a 2+1 road (a road with passing lanes) on the Äasmäe-Kohatu section of the Tallinn-Pärnu-Ikla road which was secured in 2016. We continue to provide road maintenance services in four road maintenance areas: Keila, Järva, Hiiu, and Kose. According to our estimates, in 2017 the volume of public investment will not increase substantially compared with 2016. Thus, we expect that in 2017 the revenues of the Infrastructure segment will remain more or less at the same level as in 2016 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

Based on growth in the Group's order book and developments in our selected markets, we forecast year-on-year revenue growth for 2017. In an environment of exceptionally stiff competition, we have tried to avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Instead, our policy is to keep costs under control and monitor market developments with due care.

Between the reporting date (31 March 2017) and the date of release of this report, Group companies have secured additional construction contracts in the region of 33,263 thousand euros.

People

Employees and personnel expenses

In the first quarter of 2017, the Group (the parent and the subsidiaries) employed, on average, 716 people including 413 engineers and technical personnel (ETP). The number of employees, particularly the ETP staff, has increased year on year by around 10% in connection with growth in Group's business operations.

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

	Q1 2017	Q1 2016	Q1 2015	2016
ETP	413	353	362	381
Workers	303	299	349	303
Total average	**716**	**652**	**711**	**684**

Our personnel expenses for the first quarter of 2017 including all taxes totalled 4,479 thousand euros (Q1 2016: 4,109 thousand euros), a roughly 9% 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 quarter of 2017 amounted to 34 thousand euros and associated social security charges totalled 11 thousand euros (Q1 2016: 34 thousand euros and 11 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 94 thousand euros and associated social security charges totalled 31 thousand euros (Q1 2016: 87 thousand euros and 28 thousand euros respectively).

Labour productivity and labour cost efficiency

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

	Q1 2017	Q1 2016	Q1 2015	2016
Nominal labour productivity (rolling), (EUR '000)	281.9	216.4	224.5	268.0
Change against the comparative period	30.4%	-3.6%	-1.4%	27%
Nominal labour cost efficiency (rolling), (EUR)	9.5	8.0	8.2	9.0
Change against the comparative period	20.7%	-4.4%	-2.1%	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.

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.

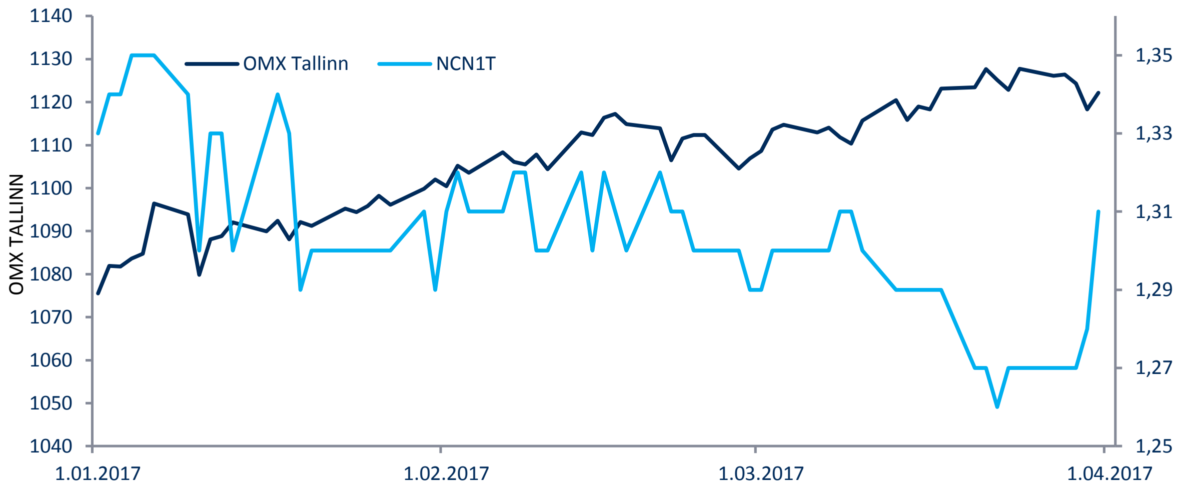
In July 2014, Nordecon AS issued 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares for the same price. The share capital of Nordecon AS consists of 32,375,483 ordinary 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.

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



Index/equity	1 January 2017*	31 March 2017	+/-
OMX Tallinn	1,075.50	1,122.40	4.34%
NCN1T	EUR 1.33	EUR 1.31	-1.50%

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

Summarised trading results

Share trading history (EUR)

Price	Q1 2017	Q1 2016	Q1 2015
Open	1.34	1.03	1.02
High	1.35	1.07	1.11
Low	1.26	0.98	1.02
Last closing price	1.31	1.06	1.06
Traded volume (number of securities traded)	343,515	339,262	462,695
Turnover, in millions	0.45	0.35	0.49
Listed volume (31 March), in thousands	32,375	32,375	32,375
Market capitalisation (31 March), in millions	42.41	34.32	34.32

Shareholder structure

Largest shareholders of Nordecon AS at 31 March 2017

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,176,385	12.90
ING Luxembourg S.A.	2,007,949	6.20
Rondam AS	1,000,000	3.09
SEB Pank AS clients	977,160	3.02
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
Ain Tromp	315,644	0.97
Alforme OÜ	256,000	0.79
SEB Elu- ja Pensionikindlustus AS	255,000	0.79

Shareholder structure of Nordecon AS at 31 March 2017

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	70.09
Shareholders with interest from 1% to 5%	4	9.09
Shareholders with interest below 1%	1,559	15.82
Holder of own (treasury) shares	1	5.00
Total	**1,567**	**100**

Shares controlled by members of the council of Nordecon AS at 31 March 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 31 March 2017

Board member		Number of shares	Ownership interest (%)
Jaano Vink (OÜ Brandhouse)*	Chairman of the Board	37,921	0.12
Avo Ambur	Member of the Board	32,322	0.10
Erkki Suurorg	Member of the Board	0	0.00
Total		**70,243**	**0.22**

* Companies controlled by the individual

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 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.

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 well-known 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 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, exceeding the figure of the previous financial framework, but the amounts earmarked for construction work are substantially smaller. Projects supported by the EU began to have a limited impact on the construction sector in the second half of 2016 and in the next periods 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: business growth in Estonia is 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 31 March 2017, the Group's warranty provisions (including current and non-current ones) totalled 1,176 thousand euros (31 March 2016: 1,137 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 30 thousand euros. In the comparative period, there were no credit losses. 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 1.01-fold (31 March 2016: 1.02-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, as at the reporting date the Group's loans to its Ukrainian associates of 8,716 thousand euros are 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. At 31 March 2017, the Group's short-term borrowings totalled 17,504 thousand euros. After the end of the reporting period, we have refinanced short-term borrowings of 5,763 thousand euros, of which settlement of 3,913 thousand euros has been deferred to 2018 and settlement of 1,850 thousand euros has been deferred to 2019.

At the reporting date, the Group's cash and cash equivalents totalled 5,917 thousand euros (31 March 2016: 4,236 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. Compared with the same period last year, interest-bearing borrowings grew by 3,169 thousand euros. Both loan and finance lease liabilities increased (see also the section *Liquidity risk*). At 31 March 2017, interest-bearing borrowings totalled 23,649 thousand euros (31 March 2016: 20,480 thousand euros). Interest expense for the first quarter of 2017 amounted to 128 thousand euros (Q1 2016: 147 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 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In the first quarter of 2017, the hryvnia/euro exchange rate was relatively stable: the hryvnia weakened against the euro by around 1.9%. 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 49 thousand euros (Q1 2016: 291 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.

The reciprocal receivables and liabilities of our Ukrainian and non-Ukrainian entities which are connected with 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 quarter of 2017, translation of operating receivables and payables did not result in any exchange gain or loss (Q1 2016: an exchange loss of 2 thousand euros). The prior period exchange loss was recognised in *Other operating expenses.*

We do not use derivatives to hedge currency risk.

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2017, public investment should grow slightly but the extent to which relevant projects can be realised is still unclear. 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 as a whole, investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which 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 activities in carrying out new procurement tenders have made, and hopefully will continue to make, 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 positive level of private 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 recent years' experience it is likely that stiff competition and insufficient demand will cause some general contractors to go slowly out of business or shrink in size rather than merge or exit the market. News about the difficulties of some construction companies, published at the end of 2016, show that the problems of weaker market players are escalating. According to our assessment, one reason why market consolidation has decelerated in recent years is customers' (including public sector customers') increasing desire to loosen tendering requirements to increase competition and lower the price even though this increases the risks related to security, quality, adherence to deadlines, and the builder's liability.

  Competition is stiff in all segments of the construction market, intensifying in line with market developments. The rise in the average number of bidders for a contract reflects this. However, the gap between the lowest bids made by winners and the average ones is narrowing, which shows that the quality of procurement documents is gradually improving and bidders' prices are evening up. It is clear that in the current market situation where the prices of construction inputs have started to rise 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, thus, set sales prices that are affordable for prospective buyers. Although new apartments are relatively expensive compared to the standard of living and the banks' lending terms are strict, the housing market continued to grow also in the first quarter of 2017. At the date of release of this report, there are signs that the market may be steadying. Hopefully the market will stabilise.

- 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 both the contract performance phase and the subsequent warranty period.

- In the second half of 2016, the prices of construction inputs, particularly in some specific building construction sub-segments (e.g., finishing and concrete works, etc.), began to rise. So far, general contractors have been able to absorb this by making margin concessions but their capacity for doing this is decreasing. The construction market includes an increasing number of areas where changes in the environment may trigger a sharp price increase (e.g., materials producers' rapid and successful entry into foreign markets). The rise in housing construction has lengthened the supply periods 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.
- Persisting shortage of skilled labour (including project and site managers) may start restricting companies' performance capacities, which may affect 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 will sustain 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 provide 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 operations in Ukraine primarily in the Kiev region. Based on our order book as at the end of 2016, 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 in Kiev 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 also 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 to Kiev (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 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 observance of deadlines and have therefore accepted a certain decrease in 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.

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.

Jaano Vink	Chairman of the Board	11 May 2017
Avo Ambur	Member of the Board	11 May 2017
Priit Luman	Member of the Board	11 May 2017
Erkki Suurorg	Member of the Board	11 May 2017
Maret Tambek	Member of the Board	11 May 2017

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	31 March 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents		5,917	9,786
Trade and other receivables	2	26,680	21,055
Prepayments		1,835	1,644
Inventories	3	25,480	22,992
Total current assets		**59,912**	**55,477**
Non-current assets			
Investments in equity-accounted investees		1,540	1,640
Other investments		26	26
Trade and other receivables	2	10,932	10,816
Investment property		4,929	4,929
Property plant and equipment	4	11,503	11,111
Intangible assets	4	14,622	14,623
Total non-current assets		**43,552**	**43,145**
TOTAL ASSETS		**103,464**	**98,622**
LIABILITIES			
Current liabilities			
Borrowings	5, 6	17,504	6,297
Trade payables		29,935	29,811
Other payables		6,318	5,389
Deferred income		4,860	4,128
Provisions		723	753
Total current liabilities		**59,340**	**46,378**
Non-current liabilities			
Borrowings	5, 6	6,145	13,102
Trade payables		119	98
Other payables		96	117
Provisions		897	881
Total non-current liabilities		**7,257**	**14,198**
TOTAL LIABILITIES		**66,597**	**60,576**
EQUITY			
Share capital		19,720	19,720
Own (treasury) shares		-1,550	-1,550
Share premium		564	564
Statutory capital reserve		2,554	2,554
Translation reserve		1,600	1,549
Retained earnings		12,004	13,091
Total equity attributable to owners of the parent		**34,892**	**35,928**
Non-controlling interests		**1,975**	**2,118**
TOTAL EQUITY		**36,867**	**38,046**
TOTAL LIABILITIES AND EQUITY		**103,464**	**98,622**

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q1 2017	Q1 2016	2016
Revenue	8, 9	41,604	27,731	183,329
Cost of sales	10	-40,980	-26,578	-172,350
Gross profit		**624**	**1,153**	**10,979**
Marketing and distribution expenses		-113	-103	-413
Administrative expenses	11	-1,457	-1,292	-6,106
Other operating income	12	42	41	362
Other operating expenses	12	-88	-12	-614
Operating loss/profit		**-992**	**-213**	**4,208**
Finance income	13	103	124	463
Finance costs	13	-169	-439	-1,088
Net finance costs		**-66**	**-315**	**-625**
Share of profit of equity-accounted investees		47	119	609
Loss/profit before income tax		**-1,011**	**-409**	**4,192**
Income tax expense		-75	0	-259
Loss/profit for the period		**-1,086**	**-409**	**3,933**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		51	288	191
Total other comprehensive income		**51**	**288**	**191**
TOTAL COMPREHENSIVE EXPENSE/INCOME		**-1,035**	**-121**	**4,124**
Loss/profit attributable to:				
- Owners of the parent		-1,087	-570	3,044
- Non-controlling interests		1	161	889
Loss/profit for the period		**-1,086**	**-409**	**3,933**
Total comprehensive expense/income attributable to:				
- Owners of the parent		-1,036	-282	3,235
- Non-controlling interests		1	161	889
Total comprehensive expense/income for the period		**-1,035**	**-121**	**4,124**
Earnings per share attributable to owners of the parent:				
Basic earnings per share (EUR)	7	-0.04	-0.02	0.10
Diluted earnings per share (EUR)	7	-0.04	-0.02	0.10

Condensed consolidated interim statement of cash flows

EUR '000	Note	Q1 2017	Q1 2016
Cash flows from operating activities			
Cash receipts from customers[1]		45,609	29,588
Cash paid to suppliers[2]		-46,567	-27,505
VAT paid		-1,018	-951
Cash paid to and for employees		-4,596	-3,950
Income tax paid		-75	0
Net cash used in operating activities		**-6,647**	**-2,818**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-33	-103
Paid on acquisition of intangible assets		-2	0
Proceeds from sale of property, plant and equipment	4	0	28
Loans provided		-21	-18
Repayment of loans provided		20	2
Dividends received		147	3
Interest received		27	0
Net cash from/used in investing activities		**138**	**-88**
Cash flows from financing activities			
Proceeds from loans received		3,430	1,562
Repayment of loans received		-19	-201
Finance lease principal paid	6	-480	-395
Interest paid		-147	-158
Dividends paid		-144	0
Net cash from financing activities		**2,640**	**808**
Net cash flow		**-3,869**	**-2,098**
Cash and cash equivalents at beginning of period		**9,786**	**6,332**
Effect of movements in foreign exchange rates		0	2
Decrease in cash and cash equivalents		-3,869	-2,098
Cash and cash equivalents at end of period		**5,917**	**4,236**

[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

	Equity attributable to owners of the parent								
EUR '000	Share capital	Own shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2015	**20,692**	**-1,582**	**2,554**	**547**	**1,358**	**10,970**	**34,539**	**1,528**	**36,067**
Loss/profit for the period	0	0	0	0	0	-570	-570	161	-409
Other comprehensive income	0	0	0	0	288	0	288	0	288
Balance at 31 March 2016	**20,692**	**-1,582**	**2,554**	**547**	**1,646**	**10,400**	**34,257**	**1,689**	**35,946**
Balance at 31 December 2016	**19,720**	**-1,550**	**2,554**	**564**	**1,549**	**13,091**	**35,928**	**2,118**	**38,046**
Loss/profit for the period	0	0	0	0	0	-1,087	-1,087	1	-1,086
Other comprehensive income	0	0	0	0	51	0	51	0	51
Changes in non-controlling interests	0	0	0	0	0	0	0	-144	-144
Balance at 31 March 2017	**19,720**	**-1,550**	**2,554**	**564**	**1,600**	**12,004**	**34,892**	**1,975**	**36,867**

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 31 March 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 first quarter 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 note 8.

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

NOTE 2. Trade and other receivables

EUR '000	Note	31 March 2017	31 December 2016
Current items			
Trade receivables		18,223	12,905
Retentions receivable		544	491
Receivables from related parties		18	19
Loans provided to related parties	14	253	275
Miscellaneous receivables		278	276
Total receivables and loans provided		**19,316**	**13,966**
Due from customers for contract work		7,364	7,089
Total current trade and other receivables		**26,680**	**21,055**

EUR '000	Note	31 March 2017	31 December 2016
Non-current items			
Loans provided to related parties	14	10,467	10,351
Other non-current receivables		465	465
Total non-current trade and other receivables		**10,932**	**10,816**

NOTE 3. Inventories

EUR '000	31 March 2017	31 December 2016
Raw materials and consumables	3,865	4,074
Work in progress	8,805	5,060
Goods for resale and properties held for development	11,712	12,671
Finished goods	1,098	1,187
Total inventories	**25,480**	**22,992**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first quarter of 2017, the Group did not conduct any significant transactions with items of property, plant and equipment. Additions to property, plant and equipment totalled 309 thousand euros (Q1 2016: 93 thousand euros) and comprised purchases of equipment and construction machinery required for the Group's operating activities.

No items of property, plant and equipment were sold in the reporting period. In the comparative period, proceeds from sale of property, plant and equipment amounted to 28 thousand euros and sales gain amounted to 21 thousand euros (note 12).

Intangible assets

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

NOTE 5. Borrowings

Short-term borrowings

EUR '000	Note	31 March 2017	31 December 2016
Short-term portion of long-term loans		10,687	2,495
Short-term portion of finance lease liabilities	6	2,217	2,070
Short-term bank loans		4,100	1,732
Factoring liabilities		500	0
Total short-term borrowings		**17,504**	**6,297**

Long-term borrowings

EUR '000	Note	31 March 2017	31 December 2016
Long-term portion of long-term bank loans		2,298	9,436
Derivative financial instruments		17	21
Long-term portion of finance lease liabilities	6	3,830	3,645
Total long-term borrowings		**6,145**	**13,102**

NOTE 6. Finance and operating leases

EUR '000	31 March 2017	31 December 2016
Finance lease liabilities at end of reporting period	**6,047**	**5,715**
Of which payable not later than 1 year	2,217	2,070
Of which payable later than 1 year and not later than 5 years	3,830	3,645
Base currency EUR	6,012	5,662
Base currency UAH	35	53
Interest rates of contracts denominated in EUR [1]	2.0%-5.2%	2.0%-3.9%
Interest rates of contracts denominated in UAH	20.0%	20.0%
Frequency of payments	Monthly	Monthly

[1] Includes leases with floating interest rates

Finance lease payments

EUR '000	Q1 2017	Q1 2016
Principal payments made during the period	480	395
Interest payments made during the period	44	36

Operating lease payments

EUR '000	Q1 2017	Q1 2016
Payments made for cars	226	194
Payments made for construction equipment	731	352
Payments made for premises	200	187
Payments made for software	34	48
Total operating lease payments	**1,191**	**781**

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	Q1 2017	Q1 2016
Profit for the period attributable to owners of the parent	-1,087	-570
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	-0.04	-0.02
Diluted earnings per share (EUR)	-0.04	-0.02

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.

First quarter

EUR '000 Q1 2017	Buildings	Infrastructure	Total
Total revenue	36,712	4,487	41,199
Inter-segment revenue	-1	0	-1
Revenue from external customers	**36,711**	**4,487**	**41,198**
Gross profit/loss of the segment	**1,497**	**-665**	**832**

EUR '000 Q1 2016	Buildings	Infrastructure	Total
Total revenue	24,597	3,108	27,705
Inter-segment revenue	-186	0	-186
Revenue from external customers	**24,411**	**3,108**	**27,519**
Gross profit/loss of the segment	**2,610**	**-1,201**	**1,409**

The revenue and gross profit of the Buildings segment include revenue and gross profit from the Group's own development activities, which in the first quarter of 2017 amounted to 196 thousand euros and 131 thousand euros respectively (Q1 2016: 705 thousand and 26 thousand euros respectively).

Reconciliation of segment revenue

EUR '000	Q1 2017	Q1 2016
Total revenues for reportable segments	41,199	27,705
Elimination of inter-segment revenues	-1	-186
Unallocated revenue	406	212
Total consolidated revenue	**41,604**	**27,731**

Reconciliation of segment profit

EUR '000	Q1 2017	Q1 2016
Total profit for reportable segments	832	1,409
Unallocated loss	-208	-256
Total gross profit	**624**	**1,153**
Unallocated expenses:		
Marketing and distribution expenses	-113	-103
Administrative expenses	-1,457	-1,292
Other operating income and expenses	-46	29
Operating loss	**-992**	**-213**
Finance income	103	124
Finance costs	-169	-439
Share of profit of equity-accounted investees	47	119
Loss before tax	**-1,011**	**-409**

NOTE 9. Segment reporting – geographical information

EUR '000	Q1 2017	Q1 2016
Estonia	37,721	25,796
Ukraine	696	666
Finland	747	412
Sweden	2,662	857
Elimination of inter-segment revenues	-222	0
Total revenue	**41,604**	**27,731**

NOTE 10. Cost of sales

EUR '000	Q1 2017	Q1 2016
Cost of materials, goods and services	36,812	22,714
Personnel expenses	3,673	3,399
Depreciation expense	472	437
Other expenses	23	28
Total cost of sales	**40,980**	**26,578**

NOTE 11. Administrative expenses

EUR '000	Q1 2017	Q1 2016
Personnel expenses	806	710
Cost of materials, goods and services	590	524
Depreciation and amortisation expense	17	9
Other expenses	44	49
Total administrative expenses	**1,457**	**1,292**

NOTE 12. Other operating income and expenses

EUR '000	Q1 2017	Q1 2016
Other operating income		
Gain on sale of property, plant and equipment	0	21
Other income	42	20
Total other operating income	**42**	**41**

EUR '000	Q1 2017	Q1 2016
Other operating expenses		
Foreign exchange loss	0	2
Net loss from recognition and reversal of impairment losses on receivables	30	0
Other expenses	58	10
Total other operating expenses	**88**	**12**

NOTE 13. Finance income and costs

EUR '000	Q1 2017	Q1 2016
Finance income		
Interest income on loans	98	118
Other finance income	5	6
Total finance income	**103**	**124**

EUR '000	Q1 2017	Q1 2016
Finance costs		
Interest expense	128	147
Foreign exchange loss	49	291
Other finance costs	-8	1
Total finance costs	**169**	**439**

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		Q1 2017		Q1 2016
Counterparty	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	78	0	83	0
Companies of AS Nordic Contractors group	1	2	1	1
Companies related to owners of AS Nordic Contractors	199	0	225	0
Equity-accounted investees	708	3	2,532	3
Companies related to members of the council	21	0	25	0
Total	**1,007**	**5**	**2,866**	**4**

EUR '000		Q1 2017		Q1 2016
Nature of transactions	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	708	0	2,532	0
Goods	199	0	225	0
Lease and other services	79	5	88	4
Other transactions	21	0	21	0
Total	**1,007**	**5**	**2,866**	**4**

During the period, the Group recognised interest income on loans to associates of 66 thousand euros (Q1 2016: 95 thousand euros), on loans to a joint venture of 29 thousand euros (Q1 2016: 29 thousand euros) and on a loan to a company of AS Nordic Contractors group of 3 thousand euros (Q1 2016: 3 thousand euros).

Receivables from and liabilities to related parties at period-end

		31 March 2017		31 December 2016
EUR '000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	0	8	0	11
Companies of AS Nordic Contractors group – loans and interest	253	0	275	0
Companies of AS Nordic Contractors group – receivables	2	0	1	0
Companies related to owners of AS Nordic Contractors	0	0	0	31
Associates – receivables and liabilities	16	1,018	18	894
Associates – loans and interest	8,716	0	8,637	0
Joint venture – loans and interest	1,751	0	1,714	0
Total	**10,738**	**1,026**	**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 quarter of 2017 amounted to 34 thousand euros and associated social security charges totalled 11 thousand euros (Q1 2016: 34 thousand euros and 11 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 94 thousand euros and associated social security charges totalled 31 thousand euros (Q1 2016: 87 thousand euros and 28 thousand euros respectively).

NOTE 15. Events after the reporting period

At a meeting held on 26 April 2017, the council of Nordecon AS appointed, effective from 1 May 2017, two new members of the board: Maret Tambek who will be responsible for financial management and support services and Priit Luman who will be responsible for the Group's foreign operations. As from 1 May 2017, the board of Nordecon AS has five members.

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 first quarter 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.

Jaano Vink	Chairman of the Board	11 May 2017
Avo Ambur	Member of the Board	11 May 2017
Priit Luman	Member of the Board	11 May 2017
Erkki Suurorg	Member of the Board	11 May 2017
Maret Tambek	Member of the Board	11 May 2017