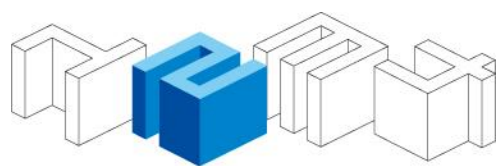




**Financial report for the second
quarter and first half of 2018**
(unaudited)





Financial report for the second quarter and first half of 2018 (unaudited)

| | |
|----------------------------|---|
| Business name | Nordecon AS |
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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 2018 – 31 December 2018 |
| Reporting period | 1 January 2018 – 30 June 2018 |
| Council | Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder |
| Board | Gerd Müller (chairman of the board), Priit Luman, Maret Tambek, Ando Voogma |
| Auditor | KPMG Baltics OÜ |



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Nordecon Group at a glance

Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) began operating as a construction company in 1989. Since then, we have grown to become one of the leading construction groups in Estonia and a strong player in all segments of the construction market.

For years, our business strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a reasonable balance between building and infrastructure construction. We have gradually extended our offering with activities which support the core business such as road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage risks.

Nordecon's specialists offer high-quality integrated solutions in the construction of commercial, residential, industrial and public buildings as well as infrastructure – roads, landfill sites, utility networks and port facilities. In addition, we 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 environmental management certificate ISO 14001 and international occupational health and safety certificate OHSAS 18001.

Nordecon AS's shares have been listed on the Nasdaq Tallinn Stock Exchange since 18 May 2006.

VISION

To be the preferred partner in the construction industry for customers, subcontractors, and employees.

MISSION

To offer our customers building and infrastructure construction solutions that meet their needs and fit their budget and, thus, help them maintain and increase the value of their assets.

SHARED VALUES

Professionalism

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

Reliability

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

Openness

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

Employees

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



Directors' report

Strategic agenda for 2016-2020

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

Business activities until 2020

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

Employees until 2020

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

Financial targets until 2020

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



Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

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

In terms of the market in general, investments made by the largest public sector customers (e.g. the state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which will reach signature of a construction contract in 2018 will not increase substantially. The Ministry of Defence has been a positive exception for builders as its needs and activity in carrying out new procurement tenders and placing orders through a single agency, the centre for defence investment, have made a major contribution to market revival. Hence, the Estonian construction market as a whole (particularly infrastructure construction segments) will remain relatively stable.

- Competition remains stiff across the construction market, intensifying in different segments in line with market developments. A continuously high number of bidders for a contract reflects this. It is clear that in an environment of rising input prices that has emerged in recent years, efficiency is the key to success.
- 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. Despite the market situation it is expected that the housing market, which accounts for a somewhat disproportionately large share of the total construction market and thus amplifies associated risks, will also sustain growth in 2018.
- There is a growing contrast between the stringent terms of public contracts, which require the builder to agree to increasing obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the modest participation requirements. Lenient qualification requirements and the precondition of making a low bid have made it relatively easy for an increasing number of builders to win a contract but have heightened the risks taken by customers in terms of funding, deadlines and quality during the contract performance phase and the subsequent warranty period.
- Recent years have brought a rise in the prices of construction inputs, particularly in building construction. Initially, general contractors tried to absorb the cost increase by making margin concessions but their capacity for doing this has been practically exhausted. The construction market includes an increasing number of areas where changes in the environment (including materials producers' rapid and successful entry into foreign markets) may trigger a sharp price increase. The rise in housing construction has lengthened the supply terms of various essential materials and services considerably, making it impossible to carry out all processes in the former optimistic timeframes. As a result, activities require more extensive planning or may need to be postponed.
- The persisting shortage of skilled labour (including project and site managers) is restricting companies' performance capacities and affecting different aspects of the construction process, including quality. Labour migration to the Nordic countries remains steady and it is not likely that workers who have left will return to the Estonian construction market in large numbers. Migrant workers that in turn have started moving to Estonia are not able to fill the gap. All of the above factors 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 mainly offer general contracting and project management services to private sector customers in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity in Kiev and the surrounding area has picked up in recent years. In 2018, we will continue our Ukrainian operations primarily in the Kiev region. Based on our order book, it is possible that in 2018 our Ukrainian business volumes will increase compared with 2017. Despite the military conflict in eastern Ukraine, for Nordecon the market situation has improved compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability.



The Ukrainian government's recent crackdown on cash-in-hand work is definitely a step in the right direction, which in the long term should improve our position in the Ukrainian construction market. We assess the situation in the Ukrainian market regularly and critically and are ready to restructure our operations as and when necessary. Should the crisis in eastern Ukraine spread (which at the date of release of this report is highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects, which have been put on hold, or signing a construction contract with a prospective new owner.

Finland

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

Sweden

We have been operating in Sweden since July 2015. In the Swedish market, we offer mainly the construction of residential and non-residential buildings in the central part of the country. On gaining experience in the new market, we have prioritised quality and adherence to deadlines over 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 further business growth and earning a profit in a large market when we have been able to stabilise our order book growth at the desired level.



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 2018 public investment is not expected to grow substantially compared with 2017. 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 for contracts include not only rival general contractors but also former subcontractors. This is mainly attributable to the state and local governments' policy to keep the qualification requirements of public procurement tenders low, which sometimes results in the sacrifice of quality and adherence to deadlines to the lowest possible price. We acknowledge the risks inherent in the performance of contracts signed in an environment of stiff competition and rising input prices. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered noticeably and competition is tough is risky because negative developments in the economy may quickly render the contract onerous. In setting our prices in such an environment, we focus on ensuring a reasonable balance between contract performance risks and tight cost control.

Demand for construction services continues to be strongly influenced by the volume of public investment, which in turn depends on the co-financing received from the EU structural funds. Total support allocated to Estonia during the current EU budget period (2014-2020) amounts to 5.9 billion euros. Although the amount exceeds the figure of the previous financial framework, the amounts earmarked for construction work are substantially smaller than in the previous budget period.

In the light of the above factors, we expect that in 2018 as a whole our business volumes will remain at the same level as in 2017. 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 construction, earthworks, etc.). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance (see also the chapter *Performance by business line*). Where possible, our entities implement different technical solutions that allow working efficiently also in changeable conditions.

Operational risks

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific insurance contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 30 June 2018, the Group's warranty provisions (including current and non-current ones) totalled 1,007 thousand euros (30 June 2017: 1,051 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, the Group did not incur any credit losses. In the comparative period in 2017, credit losses totalled 30 thousand euros. The overall credit risk exposure of the portfolio 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 continuously 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 0.98-fold (30 June 2017: 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, at the reporting date the Group's loans to its Ukrainian associates of 8,642 thousand euros were classified as non-current assets.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. At 30 June 2018, the Group's short-term borrowings totalled 21,441 thousand euros.

At the reporting date, the Group's cash and cash equivalents totalled 7,985 thousand euros (30 June 2017: 8,101 thousand euros).

Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. During the period, interest-bearing borrowings grew by 433 thousand euros year on year. Factoring liabilities increased whereas loan and finance lease liabilities decreased (see also the section *Liquidity risk*). At 30 June 2018, interest-bearing borrowings totalled 29,388 thousand euros (30 June 2017: 28,955 thousand euros). Interest expense for the first half of 2018 amounted to 425 thousand euros (H1 2017: 304 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 signed a derivative contract to manage the risks resulting from changes in the interest rate of the finance lease contract of a new asphalt concrete plant acquired in 2016.

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 is unstable because the political and economic environment in Ukraine continues to be strained 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 the determination of the national currency's indicative exchange rate. In the first half of 2018, the hryvnia strengthened against the euro by around 9.6%. For the Group's Ukrainian subsidiary that has to translate its euro-denominated loans into the local currency this meant additional foreign exchange gain of 243 thousand euros (H1 2017: an exchange loss of 121 thousand euros). Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

Our Ukrainian and non-Ukrainian entities' reciprocal receivables and liabilities which are related to the construction business and denominated in hryvnias do not give rise to any exchange gains or losses. Nor do the loans provided to the Ukrainian associates in euros give rise to any exchange gains or losses to be recognised in the Group's accounts.



In the first half of 2018, the Swedish krona weakened against the euro by around 6%. Due to adverse movements in the krona/euro exchange rate, the translation of operating receivables and payables resulted in an exchange loss of 71 thousand euros (H1 2017: 1 thousand euros). The exchange loss has been recognised in *Other operating expenses*. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 154 thousand euros. The exchange loss has been recognised in *Finance costs*. In the comparative period, there was no exchange loss.

We have not acquired derivatives to hedge our currency risk.

Employee and work environment risks

Finding permanent labour is a serious challenge for the entire construction sector and one of the main factors that influences business results. The Group depends extensively on its subcontractors' ability to ensure the availability of skilled labour. To strengthen Nordecon's reputation as an employer and make sure that we can find employees also in the future, we collaborate with educational institutions.

As a construction company, we strive to minimise the occupational health and safety risks of people working on our construction sites including both our own employees and the teams of our subcontractors. The goal is to make sure that all measures required by law are applied in full. In addition, the parent company follows the requirements of international occupational health and safety management standard OHSAS 18001. Subcontractors must ensure that their employees follow applicable work safety requirements; the Group's role is to work with them and create conditions that enable and foster compliance.

Environmental risks

Construction activities change landscapes and the physical environment of cities and settlements. The Group's goal is to do its work and at the same time protect the natural environment as much as possible. Our assets and operations which have the strongest impact on the environment and, thus, involve the highest environmental risk are asphalt plants, quarries and road construction operations. To prevent leaks, spills, pollution, destruction of wildlife and other damage to the environment, we comply with legal requirements. All of our largest construction entities have implemented environmental management standard ISO 14001.

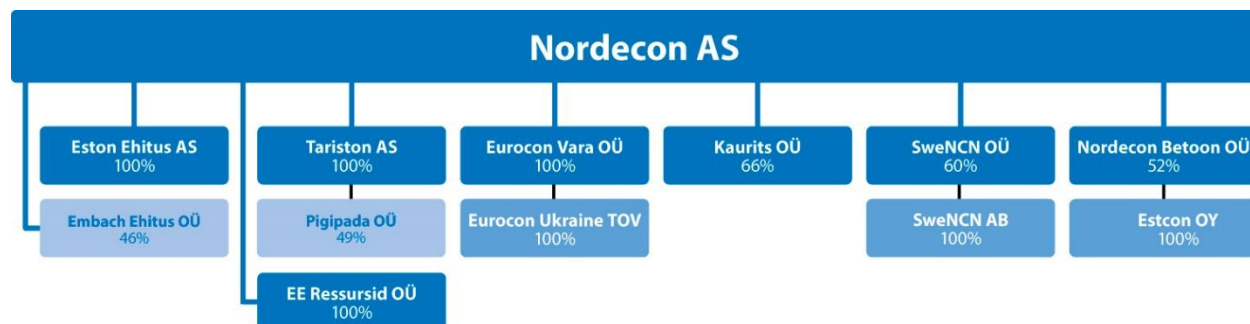
Corruption and ethical risks

As one of the leading construction companies in Estonia, we realise that it is important to be aware of the risks involved in the breach of honest and ethical business practices and to make sure that our entities' management quality, organisational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour.



Group structure

The Group's structure at 30 June 2018, including interests in subsidiaries and associates*



* The structure does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE, Infra Ehitus OÜ, Kalda Kodu OÜ, Magasini 29 OÜ, Eurocon OÜ, Kastani Kinnisvara OÜ, Eurocon Bud TOV, and Nordecon Statyba UAB and the associates Technopolis-2 TOV and V.I. Center TOV, which currently do not engage in any significant business activities. The first four 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%..



The Group's operations in Estonia and foreign markets

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 Kose maintenance area 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 half of 2018, Ukraine's political and economic environment continued to be influenced by the conflict between Ukraine and Russia which broke out at the beginning of 2014. In recent years, our business activity in Ukraine has increased but we have remained conservative about the contracts we sign. Our projects are mainly located in the capital Kiev and the surrounding area. The ongoing military conflict, 700 km away in eastern Ukraine, has not had a direct impact on our operations, mostly because we right-sized the workforce during earlier periods of recession already and have accepted only such contracts whose risks have been reasonable under the circumstances. The situation in the Kiev region has stabilised, considering the backdrop, and companies have started to adapt to the new environment. In the period under review, our Ukrainian business volumes tripled compared with the first half of 2017.

Real estate development activities which require major investment remain suspended to minimise the risks until the situation in Ukraine improves (we have currently stakes in two development projects that have been put on hold). To safeguard the investments made and loans provided, 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 subcontracting 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 a building construction contract secured as a general contractor. The subsidiary also continues to develop its organisation and active sales activities in order to win new contracts.



Performance by geographical market

The contribution of the Group's foreign markets has remained stable in the past three years. In the first half of 2018, revenue earned outside Estonia accounted for 7% of our total revenue.

| | H1 2018 | H1 2017 | H1 2016 | 2017 |
|---------|---------|---------|---------|------|
| Estonia | 93% | 93% | 93% | 94% |
| Ukraine | 4% | 1% | 2% | 2% |
| Sweden | 2% | 3% | 4% | 3% |
| Finland | 1% | 2% | 1% | 1% |

The share of the Group's Ukrainian revenues has grown substantially compared with the same period last year. In Ukraine, we are providing general contractor's services under one infrastructure and two building construction contracts and the share of concrete works performed in the building construction segment has also increased significantly. The share of Swedish revenues has decreased year on year. During the period, we provided services under one construction contract secured as a general contractor. Our 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 one market. However, conditions in some of our chosen foreign markets are also volatile and affect our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic targets. Our vision of the Group's foreign operations is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

Segment revenues

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) as balanced as possible because this helps diversify risks and provides better opportunities for continuing construction operations in more challenging market conditions where the volumes of one or several sub-segments decline substantially.

Nordecon's revenues for the first half of 2018 totalled 105,658 thousand euros, a roughly 2% increase on the 103,501 thousand euros generated in the first half of 2017. Revenue growth resulted from growth in the business volumes of the Infrastructure segment. Compared with the same period last year, the revenue of the Infrastructure segment increased by around 32% while the revenue of the Buildings segment decreased by 4%. Despite year-on-year revenue growth, the contribution of the Infrastructure segment to the Group's total revenue remains modest. In the first half of 2018, our Buildings and Infrastructure segments generated revenue of 80,827 thousand euros and 24,587 thousand euros respectively. The corresponding figures for the first half of 2017 were 83,834 thousand euros and 18,607 thousand euros (see note 8). The current revenue structure is also reflected in our order book where building construction contracts continue to prevail.

| Operating segments* | H1 2018 | H1 2017 | H1 2016 | 2017 |
|---------------------|---------|---------|---------|------|
| Buildings | 76% | 81% | 79% | 74% |
| Infrastructure | 24% | 19% | 21% | 26% |

* 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 consolidated financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 Operating Segments). In the consolidated 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 largest revenue source is the commercial buildings sub-segment. In the first half of 2018, its revenue grew significantly, by around 38% year on year. The period's largest projects were the Omniva logistics centre and the Møller Auto sales and service centre in Rae parish near Tallinn. In Tallinn, we continued to build a 14-floor commercial and residential building in the WoHo quarter at Mustamäe tee 3 and a multi-storey car park at Sepise 8 in Ülemiste City. During the period, we completed the construction of an office building at Lõotsa 12 in Ülemiste City in Tallinn. On the basis of the order book, we expect that in 2018 the revenue generated by the commercial buildings sub-segment will increase compared with 2017.

The volumes of the public buildings sub-segment remained comparable to the same period last year. The results of the sub-segment continue to be strongly influenced by investments made in national defence. During the period, we continued to build infrastructure for armoured vehicles and two barracks at the defence forces' base at Tapa. Work also continued on the Estonian Academy of Security Sciences building in Tallinn and the Abja Health Centre.

The proportion of revenue generated by the apartment buildings sub-segment decreased year on year. In Estonia, a substantial share of our apartment building projects is located in Tallinn. In the period under review, the largest of them were the Meerhof 2.0 apartment building complex at Pirita tee 20a and apartment buildings at Sõjakooli 12 (phases II and III) and Lesta 10. Foreign markets continue to contribute a major share of the sub-segment's revenue. During the period, we continued the construction of a residential quarter in the city of Brovary in the Kiev region in Ukraine and the design and construction of an eight-floor apartment building in the city of Stockholm in Sweden.

We continue to carry out our own housing development projects (reported in the apartment buildings sub-segment) in Tartu and Tallinn. During the period, we completed phase VII and continued to build phase VIII (the last phase) in the Tammelin project in Tartu (www.tammelinn.ee). In Tallinn, we began construction work in a new development project at Nõmme tee 97 where we are going to build a four-floor apartment building with 21 apartments (www.nommetee.ee). We continue to sell apartments in the above development projects in Tartu and Tallinn as well as in the projects completed in 2017 at Magasini 29 (www.magasini.ee) and Hane 2 and 2a (www.hane.ee) in Tallinn. The period's housing development revenues totalled 3,228 thousand euros (H1 2017: 1,102 thousand euros). In carrying out development activities, we monitor closely potential risks in the housing development market that stem from rapid growth in the supply of new housing and relative growth in input prices.

The largest projects in the industrial and warehouse facilities sub-segment were the construction of the Metsä Wood plywood factory in Pärnu, a robotic farm at Mätliku and a grain terminal at Lähtru, and the reconstruction (phase IV) of the fattening unit of the pig farm of Rakvere Farmid AS (EKSEKO).

| Revenue breakdown in the Buildings segment | H1 2018 | H1 2017 | H1 2016 | 2017 |
|--|---------|---------|---------|------|
| Commercial buildings | 36% | 25% | 15% | 25% |
| Public buildings | 26% | 26% | 35% | 19% |
| Apartment buildings | 23% | 31% | 31% | 30% |
| Industrial and warehouse facilities | 15% | 18% | 19% | 26% |

For a long time, the Infrastructure segment has been dominated by the road construction and maintenance sub-segment whose relative importance has been increasing year by year. During the period, a significant portion of its revenue resulted from major projects performed under contracts secured in 2017: the reconstruction of the Haabersti intersection in Tallinn, the reconstruction of a section of the Tallinn ring road (km 0.6-2.8) and the construction of passing lanes for a 2+1 road on the Valmaotsa-Kärevere section of the Tallinn-Tartu-Võru-Luhamaa road. A substantial share of the period's revenue also resulted from forest road improvement services provided to the State Forest Management Centre. We continued to render road maintenance services in Järva and Hiiumaa counties and the Kose maintenance area in Harju county. We expect that road construction will remain by far the largest revenue source in the Infrastructure segment through 2018.

The contracts signed by the environmental engineering and other engineering (utility network construction) sub-segments are small and significant growth in their revenues is unlikely.

| Revenue breakdown in the Infrastructure segment | H1 2018 | H1 2017 | H1 2016 | 2017 |
|---|---------|---------|---------|------|
| Road construction and maintenance | 90% | 84% | 82% | 86% |
| Other engineering | 7% | 12% | 14% | 8% |
| Environmental engineering | 3% | 4% | 4% | 6% |



Financial review

Financial performance

Nordecon Group ended the first half of 2018 with a gross profit of 3,199 thousand euros (H1 2017: 3,139 thousand euros) and a gross margin of 3% (H1 2017: 3%). In an environment of continuously stiff competition, the Group's gross margin for the first six months remained at the same level as in the same period last year. However, the gross margin for the second quarter improved, rising to 4.4% (Q2 2017: 4.1%). We are satisfied with the profitability of the Infrastructure segment, which has improved considerably compared with last year: its gross margins for the first half and second quarter of 2018 were 3.7% and 8.5% respectively while the corresponding figures for 2017 were 0.5% and 5.4%. However, we would like to see better results in the Buildings segment whose gross margin has dropped from 4.1% for the first half and second quarter of 2017 to 3.3% for the first half and second quarter of 2018. The profitability of the Buildings segment continues to be influenced by the fact that the Group earns a large share of its revenue from the construction of apartment buildings where the ongoing rise in subcontracting prices, particularly labour costs, has the most tangible effect. We closely monitor the proportions of different segments in the Group's portfolio in order to better manage the risks resulting from changes in input prices.

The Group's administrative expenses for the first half of 2018 amounted to 3,386 thousand euros. Compared with the same period in 2017, administrative expenses grew by around 10% (H1 2017: 3,078 thousand euros) but the ratio of administrative expenses to revenue (12 months rolling) remained practically the same, amounting to 3.1% (H1 2017: 3.0%). Expenses increased in connection with changes made to the Group's management and the payment of termination benefits to a member of the parent company's board (see also the chapter *Employees*). However, our cost-control measures continue to produce good results and we have been able to keep administrative expenses below the target ceiling of 4% of revenue.

The Group's operating loss for the first half of 2018 amounted to 375 thousand euros (H1 2017: a loss of 326 thousand euros). EBITDA was positive at 606 thousand euros (H1 2017: positive at 664 thousand euros).

Finance income and costs for the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets. Although the Ukrainian hryvnia strengthened against the euro by 9.6% and the Group recognised an exchange gain of 243 thousand euros (H1 2017: an exchange loss of 121 thousand euros) on the translation of a loan provided to a Ukrainian subsidiary in euros, the Swedish krona weakened against the euro by around 6% and the Group recognised an exchange loss of 154 thousand euros (H1 2017: nil euros) on the translation of a loan provided to the Swedish subsidiary in euros.

The Group's net loss amounted to 524 thousand euros (H1 2017: a net loss of 897 thousand euros), of which the net loss attributable to owners of the parent, Nordecon AS, was 532 thousand euros (H1 2017: a net loss of 890 thousand euros).

Cash flows

In the first half of 2018, operating activities produced a net cash inflow of 1,305 thousand euros (H1 2017: an outflow of 5,067 thousand euros). Positive net operating cash flow is attributable to growth in the volume of the Group's own development operations and the collection of the contractual retentions (5-10% of the contract price) of major construction projects which have been completed. Although the Group's personnel expenses grew, cash paid to employees decreased year on year because the results of the previous financial year were modest and the performance bonuses paid in the first half of 2018 were smaller than in the comparative period.

Operating cash flow continues to be strongly influenced by the fact that the contracts signed with public and private sector customers do not require them to make advance payments while we have to make prepayments to subcontractors, materials suppliers, etc. Cash inflow is also lowered by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities of the first half-year produced a net cash inflow of 14 thousand euros (H1 2017: an inflow of 10 thousand euros). The largest items were payments for property, plant and equipment of 252 thousand euros (H1 2017: 147 thousand euros) and dividends received of 249 thousand euros (H1 2017: 147 thousand euros).



Financing activities generated a net cash outflow of 2,254 thousand euros (H1 2017: an inflow of 3,371 thousand euros). The largest items were loan, finance lease and dividend payments. Proceeds from loans received amounted to 1,411 thousand euros, consisting of development loans and overdraft facilities used (H1 2017: 7,399 thousand euros). Loan repayments totalled 168 thousand euros (H1 2017: 496 thousand euros) consisting of scheduled repayments of long-term investment and development loans. Finance lease payments amounted to 888 thousand euros (H1 2017: 1,149 thousand euros). Dividends paid in the first half of 2018 totalled 2,243 thousand euros (H1 2017: 2,007 thousand euros).

At 30 June 2018, the Group's cash and cash equivalents totalled 7,985 thousand euros (30 June 2017: 8,101 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 | H1 2018 | H1 2017 | H1 2016 | 2017 |
|---|---------------------|---------------------|---------------------|--------------------|
| Revenue (EUR '000) | 105,658 | 103,501 | 73,829 | 231,387 |
| Revenue change | 2% | 40% | 7% | 26.2% |
| Net profit/loss (EUR '000) | -524 | -897 | 798 | 1,725 |
| Net profit/loss attributable to owners of the parent (EUR '000) | -532 | -890 | 426 | 1,388 |
| Weighted average number of shares | 30,986,585 | 30,756,728 | 30,756,728 | 30,913,031 |
| Earnings per share (EUR) | -0.02 | -0.03 | 0.01 | 0.04 |
| Administrative expenses to revenue | 3.2% | 3.0% | 3.8% | 3.0% |
| Administrative expenses to revenue (rolling) | 3.1% | 3.0% | 3.7% | 3.0% |
| EBITDA (EUR '000) | 606 | 664 | 1,714 | 3,123 |
| EBITDA margin | 0.6% | 0.6% | 2.3% | 1.3% |
| Gross margin | 3.0% | 3.0% | 5.6% | 3.8% |
| Operating margin | -0.4% | -0.3% | 1.1% | 0.5% |
| Operating margin excluding gain on asset sales | -0.4% | -0.3% | 1.0% | 0.5% |
| Net margin | -0.5% | -0.9% | 1.1% | 0.7% |
| Return on invested capital | 0.5% | -0.1% | 2.3% | 5.9% |
| Return on equity | -1.6% | -2.4% | 2.2% | 4.8% |
| Equity ratio | 25.4% | 29.0% | 34.5% | 30.8% |
| Return on assets | -0.4% | -0.8% | 0.8% | 1.6% |
| Gearing | 35.2% | 32.5% | 33.2% | 32.7% |
| Current ratio | 0.98 | 1.02 | 1.05 | 1.11 |
| As at | 30 June 2018 | 30 June 2017 | 30 June 2016 | 31 Dec 2017 |
| Order book (EUR '000) | 131,552 | 130,601 | 131,363 | 144,122 |

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



Order book

At 30 June 2018, the Group's order book (backlog of contracts signed but not yet performed) stood at 131,552 thousand euros, a level similar to the end of the first half of 2017.

| As at | 30 June 2018 | 30 June 2017 | 30 June 2016 | 31 Dec 2017 |
|-----------------------|--------------|--------------|--------------|-------------|
| Order book (EUR '000) | 131,552 | 130,601 | 131,363 | 144,122 |

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 73% and 27% of the Group's total order book respectively (30 June 2017: 72% and 28% respectively). Compared with 30 June 2017, the order book of the Buildings segment has increased and the order book of the Infrastructure segment has decreased by around 2%.

In the Buildings segment, the order book of the commercial buildings sub-segment has grown substantially, by around 54% compared with the same period last year. Above all, its growth is driven large-scale projects in Tallinn: the construction of a 14-floor commercial and residential building at Mustamäe tee 3 in the WoHo quarter, the design and construction of an eight-floor accommodation building on the property at Liimi 1B, and the reconstruction and expansion of the building of terminal D in the Old City Harbour at Lootsi 13/4 that was secured in the second quarter of 2018. Growth in the sub-segment's order book is also strongly supported by a large contract signed in the second half of 2017 in Ukraine for the construction of a seven-floor office building in the Unit City innovation park in Kiev. The order book of the public buildings sub-segment has grown as well. The largest items in its order book are contracts signed in the second half of 2017 for the construction of the Estonian Academy of Security Sciences building in Tallinn and infrastructure for armoured vehicles and two barracks at the defence forces' base at Tapa. The order books of the industrial and warehouse facilities and the apartment buildings sub-segments have decreased.

The order book of the Infrastructure segment is strongly influenced by contracts signed by the road construction and maintenance sub-segment which account for around 88% of the Infrastructure segment's order book. The road construction order book comprises the remaining portions of contracts signed in 2017 as well as two new contracts secured in 2018: one for the reconstruction of two sections (km 195.6-205.8 and 207.8-209.2) of the Riga-Pskov road (the Tsiiruli-Missoküla road section) and the other for the construction of the Veskitammi intersection on the border of Tallinn in Laagri. The Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. Although according to our projections in 2018 public investments will not increase substantially, our order book as at the reporting date allows us to expect that in 2018 the revenue of the Infrastructure segment will grow somewhat compared with 2017 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

Based on the Group's order book and known developments in our chosen markets, we expect that the Group's revenue for 2018 will remain at the same level as in 2017. In an environment of stiff competition, we avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on our results. Our preferred policy is to keep fixed costs under control and monitor critically market developments.

Between the reporting date (30 June 2018) and the date of release of this report, Group companies have secured additional construction contracts in the region of 22,873 thousand euros.



People

Employees and personnel expenses

In the first half of 2018, the Group (the parent and the subsidiaries) employed, on average, 694 people including 426 engineers and technical personnel (ETP). The number of employees, particularly workers, has decreased by around 6% year on year, mostly because the contract for providing road maintenance services in the Keila maintenance area expired.

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

| | H1 2018 | H1 2017 | H1 2016 | 2017 |
|----------------------|------------|------------|------------|------------|
| ETP | 426 | 423 | 365 | 426 |
| Workers | 268 | 314 | 305 | 309 |
| Total average | 694 | 737 | 670 | 735 |

The Group's personnel expenses for the first half of 2018, including all taxes, totalled 10,566 thousand euros. In the same period of 2017, personnel expenses amounted to 9,945 thousand euros. The roughly 6% growth in personnel expenses is mainly attributable to pay rises.

The service fees of the members of the council of Nordecon AS for the first half of 2018 amounted to 94 thousand euros and associated social security charges totalled 31 thousand euros (H1 2017: 73 thousand euros and 24 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 390 thousand euros and associated social security charges totalled 128 thousand euros (H1 2017: 199 thousand euros and 66 thousand euros respectively). The figures include termination benefits of 93 thousand euros paid to a member of the board and associated social security charges of 31 thousand euros.

Labour productivity and labour cost efficiency

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

| | H1 2018 | H1 2017 | H1 2016 | 2017 |
|---|---------|---------|---------|-------|
| Nominal labour productivity (rolling), (EUR '000) | 327.4 | 296.5 | 222.9 | 314.9 |
| Change against the comparative period, % | 10.4% | 33.0% | -1.3% | 17.6% |
| Nominal labour cost efficiency (rolling), (EUR) | 9.9 | 10.2 | 7.8 | 10.1 |
| Change against the comparative period, % | -2.1% | 30.3% | -6.8% | 12.6% |

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 increased year on year, mainly through a decrease in headcount. Labour cost efficiency declined because the rise in personnel expenses outpaced 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 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.

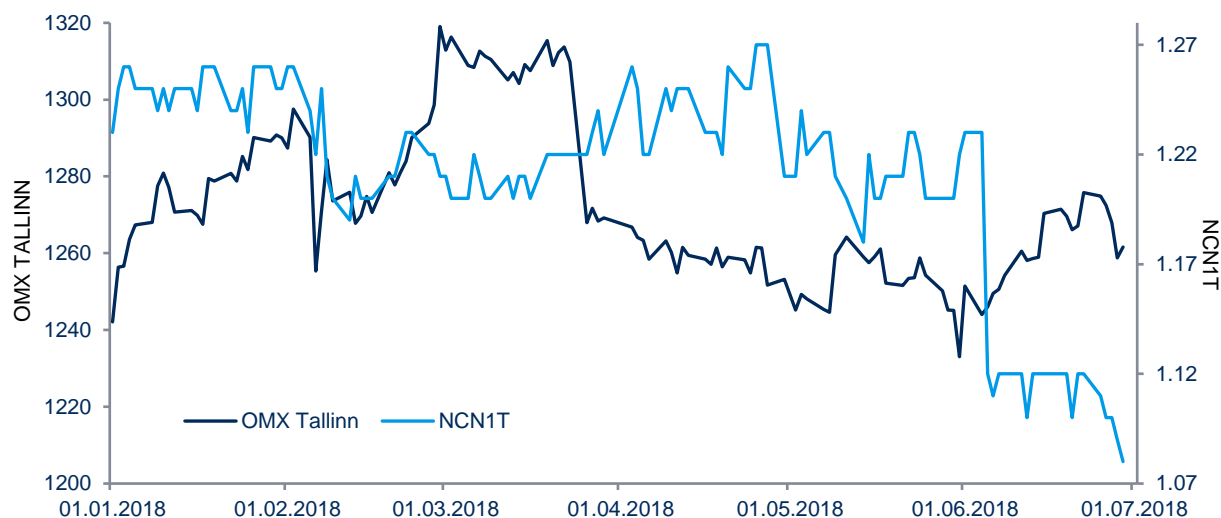
Movements in the price and turnover of the Nordecon AS share in the first half of 2018

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 half of 2018



| Index/equity | 1 January 2018* | 30 June 2018 | +/- |
|--------------|-----------------|--------------|---------|
| OMX Tallinn | 1,242.12 | 1,261.60 | 1.57% |
| NCN1T | EUR 1.23 | EUR 1.08 | -12.20% |

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2017

Summarised trading results

Share trading history (EUR)

| Price | H1 2018 | H1 2017 | H1 2016 |
|--|-----------|---------|---------|
| Open | 1.25 | 1.34 | 1.03 |
| High | 1.29 | 1.46 | 1.27 |
| Low | 1.08 | 1.20 | 0.98 |
| Last closing price | 1.08 | 1.26 | 1.10 |
| Traded volume (number of securities traded) | 1,103,785 | 925,584 | 749,008 |
| Turnover, in millions | 1.32 | 1.23 | 0.80 |
| Listed volume (30 June), in thousands | 32,375 | 32,375 | 32,375 |
| Market capitalisation (30 June), in millions | 34.97 | 40.79 | 35.61 |

Shareholder structure

Largest shareholders of Nordecon AS at 30 June 2018

| Shareholder | Number of shares | Ownership interest (%) |
|--|------------------|------------------------|
| AS Nordic Contractors | 16,507,464 | 50.99 |
| Lukusjaht AS | 4,167,385 | 12.87 |
| ING Luxembourg S.A. | 1,404,120 | 4.34 |
| Rondam AS | 1,000,000 | 3.09 |
| SEB Pank AS clients | 693,567 | 2.14 |
| ASM Investments OÜ | 519,600 | 1.60 |
| State Street Bank and Trust Omnibus Account A Fund | 368,656 | 1.14 |
| Ain Tromp | 303,960 | 0.94 |
| Lembit Talpsepp | 291,103 | 0.90 |
| Alforme OÜ | 260,000 | 0.80 |



Shareholder structure of Nordecon AS at 30 June 2018

| | Number of shareholders | Ownership interest (%) |
|--|------------------------|------------------------|
| Shareholders with interest exceeding 5% | 2 | 63.86 |
| Shareholders with interest from 1% to 5% | 5 | 12.31 |
| Shareholders with interest below 1% | 1,828 | 19.54 |
| Holder of own (treasury) shares | 1 | 4.29 |
| Total | 1,836 | 100 |

Shares controlled by members of the council of Nordecon AS at 30 June 2018

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

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 June 2018

| Board member | | Number of shares | Ownership interest (%) |
|--------------|-----------------------|------------------|------------------------|
| Gerd Müller | Chairman of the Board | 0 | 0.00 |
| Priit Luman | Member of the Board | 200 | 0.00 |
| Maret Tambek | Member of the Board | 0 | 0.00 |
| Ando Voogma | Member of the Board | 0 | 0.00 |
| Total | | 200 | 0.00 |

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company granted options for acquiring up to 1,618,755 shares in Nordecon AS. An option could be exercised when three years had passed since the signature of the option agreement but not before the general meeting had approved the company's annual report for 2016.

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

The annual general meeting which convened on 24 May 2017 adopted some amendments to the share option plan. The term for exercising a share option was extended. An option may be exercised within 15 months after the general meeting has approved Nordecon AS's annual report for 2016. In addition, the conditions for exercising the options granted to persons who at the grant date were members of the board were amended.

The annual general meeting which convened on 23 May 2018 adopted some amendments to the share option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 shares in Nordecon AS. An option may be exercised when three years have passed from the signature of the option agreement but not before the general meeting has approved the company's annual report for 2020. Exercise of the options is linked to the achievement of the Group's EBITDA target for 2020 (from 6,083 thousand euros to 12,167 thousand euros).

At 30 June 2018, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 676,648 shares had expired and options for the acquisition of 712,250 shares were still exercisable.



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.

Gerd Müller

Chairman of the Board

9 August 2018

Priit Luman

Member of the Board

9 August 2018

Maret Tambek

Member of the Board

9 August 2018

Ando Voogma

Member of the Board

9 August 2018



Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

| EUR '000 | Note | 30 June 2018 | 31 December 2017 |
|--|------|----------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 7,985 | 8,915 |
| Trade and other receivables | 2 | 46,646 | 35,193 |
| Prepayments | | 2,901 | 1,641 |
| Inventories | 3 | 23,870 | 23,230 |
| Total current assets | | 81,402 | 68,980 |
| Non-current assets | | | |
| Investments in equity-accounted investees | | 1,883 | 1,888 |
| Other investments | | 26 | 26 |
| Trade and other receivables | 2 | 9,093 | 8,950 |
| Investment property | | 3,549 | 4,929 |
| Property plant and equipment | 4 | 12,951 | 12,566 |
| Intangible assets | 4 | 14,654 | 14,639 |
| Total non-current assets | | 42,156 | 42,998 |
| TOTAL ASSETS | | 123,558 | 111,978 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Borrowings | 5, 6 | 21,441 | 16,197 |
| Trade payables | | 47,212 | 35,926 |
| Other payables | | 8,532 | 5,654 |
| Deferred income | | 5,127 | 3,651 |
| Provisions | | 619 | 664 |
| Total current liabilities | | 82,931 | 62,092 |
| Non-current liabilities | | | |
| Borrowings | 5, 6 | 7,947 | 13,955 |
| Trade payables | | 98 | 98 |
| Other payables | | 71 | 71 |
| Provisions | | 1,162 | 1,273 |
| Total non-current liabilities | | 9,278 | 15,397 |
| TOTAL LIABILITIES | | 92,209 | 77,489 |
| EQUITY | | | |
| Share capital | | 18,263 | 18,263 |
| Own (treasury) shares | | -1,278 | -1,349 |
| Share premium | | 589 | 589 |
| Statutory capital reserve | | 2,554 | 2,554 |
| Translation reserve | | 1,932 | 1,992 |
| Retained earnings | | 8,698 | 11,089 |
| Total equity attributable to owners of the parent | | 30,758 | 33,138 |
| Non-controlling interests | | 591 | 1,351 |
| TOTAL EQUITY | | 31,349 | 34,489 |
| TOTAL LIABILITIES AND EQUITY | | 123,558 | 111,978 |



Condensed consolidated interim statement of comprehensive income

| EUR '000 | Note | H1 2018 | Q2 2018 | H1 2017 | Q2 2017 | 2017 |
|--|------|--------------|--------------|--------------|--------------|-----------------|
| Revenue | 8, 9 | 105,658 | 61,996 | 103,501 | 61,897 | 231,387 |
| Cost of sales | 10 | -102,459 | -59,250 | -100,362 | -59,382 | -222,692 |
| Gross profit | | 3,199 | 2,746 | 3,139 | 2,515 | 8,695 |
| Marketing and distribution expenses | | -331 | -158 | -334 | -221 | -623 |
| Administrative expenses | 11 | -3,386 | -1,715 | -3,078 | -1,621 | -6,936 |
| Other operating income | 12 | 219 | 202 | 54 | 12 | 107 |
| Other operating expenses | 12 | -76 | 1 | -107 | -19 | -141 |
| Operating loss/profit | | -375 | 1,076 | -326 | 666 | 1,102 |
| Finance income | 13 | 385 | 250 | 204 | 101 | 2,901 |
| Finance costs | 13 | -586 | -282 | -428 | -259 | -1,570 |
| Net finance costs/income | | -201 | -32 | -224 | -158 | 1,331 |
| Share of profit of equity-accounted investees | | 452 | 515 | 193 | 146 | 485 |
| Loss/profit before income tax | | -124 | 1,559 | -357 | 654 | 2,918 |
| Income tax expense | | -400 | -200 | -540 | -465 | -1,193 |
| Loss/profit for the period | | -524 | 1,359 | -897 | 189 | 1,725 |
| Other comprehensive income | | | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | | | |
| Exchange differences on translating foreign operations | | -60 | -128 | 126 | 75 | 446 |
| Total other comprehensive expense/income | | -60 | -128 | 126 | 75 | 446 |
| TOTAL COMPREHENSIVE EXPENSE/INCOME | | -584 | 1,231 | -771 | 264 | 2,171 |
| Loss/profit attributable to: | | | | | | |
| - Owners of the parent | | -532 | 1,274 | -890 | 197 | 1,388 |
| - Non-controlling interests | | 8 | 85 | -7 | -8 | 337 |
| Loss/profit for the period | | -524 | 1,359 | -897 | 189 | 1,725 |
| Total comprehensive expense/income attributable to: | | | | | | |
| - Owners of the parent | | -592 | 1,146 | -764 | 272 | 1,834 |
| - Non-controlling interests | | 8 | 85 | -7 | -8 | 337 |
| Total comprehensive expense/income for the period | | -584 | 1,231 | -771 | 264 | 2,171 |
| Earnings per share attributable to owners of the parent: | | | | | | |
| Basic earnings per share (EUR) | 7 | -0.02 | 0.04 | -0.03 | 0.01 | 0.04 |
| Diluted earnings per share (EUR) | 7 | -0.02 | 0.04 | -0.03 | 0.01 | 0.04 |



Condensed consolidated interim statement of cash flows

| EUR '000 | Note | H1 2018 | H1 2017 |
|---|------|---------------|---------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers ¹ | | 115,243 | 111,059 |
| Cash paid to suppliers ² | | -100,279 | -102,900 |
| VAT paid | | -2,874 | -2,029 |
| Cash paid to and for employees | | -10,480 | -10,997 |
| Income tax paid | | -305 | -200 |
| Net cash from/used in operating activities | | 1,305 | -5,067 |
| Cash flows from investing activities | | | |
| Paid on acquisition of property, plant and equipment | | -252 | -147 |
| Paid on acquisition of intangible assets | | 0 | -3 |
| Proceeds from sale of property, plant and equipment | 4 | 22 | 0 |
| Loans provided | | -17 | -34 |
| Repayment of loans provided | | 7 | 20 |
| Dividends received | | 249 | 147 |
| Interest received | | 5 | 27 |
| Net cash from investing activities | | 14 | 10 |
| Cash flows from financing activities | | | |
| Proceeds from loans received | | 1,411 | 7,399 |
| Repayment of loans received | | -168 | -496 |
| Finance lease principal paid | 6 | -888 | -1,149 |
| Interest paid | | -366 | -376 |
| Dividends paid | | -2,243 | -2,007 |
| Net cash used in/from financing activities | | -2,254 | 3,371 |
| Net cash flow | | -935 | -1,686 |
| Cash and cash equivalents at beginning of period | | 8,916 | 9,786 |
| Effect of movements in foreign exchange rates | | 4 | 1 |
| Decrease in cash and cash equivalents | | -935 | -1,686 |
| Cash and cash equivalents at end of period | | 7,985 | 8,101 |

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

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



Condensed consolidated interim statement of changes in equity

| EUR '000 | Equity attributable to owners of the parent | | | | | | | Non-controlling interests | Total |
|---------------------------------------|---|---------------|-----------------|---------------|---------------------|-------------------|---------------|---------------------------|---------------|
| | Share capital | Own shares | Capital reserve | Share premium | Translation reserve | Retained earnings | Total | | |
| Balance at 31 December 2016 | 19,720 | -1,550 | 2,554 | 564 | 1,549 | 13,091 | 35,928 | 2,118 | 38,046 |
| Loss for the period | 0 | 0 | 0 | 0 | 0 | -890 | -890 | -7 | -897 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 126 | 0 | 126 | 0 | 126 |
| Transactions with owners | | | | | | | | | |
| Dividend distribution | 0 | 0 | 0 | 0 | 0 | -1,384 | -1,384 | -623 | -2,007 |
| Total transactions with owners | 0 | 0 | 0 | 0 | 0 | -1,384 | -1,384 | -623 | -2,007 |
| Balance at 30 June 2017 | 19,720 | -1,550 | 2,554 | 564 | 1,675 | 10,817 | 33,780 | 1,488 | 35,268 |
| Balance at 31 December 2017 | 18,263 | -1,349 | 2,554 | 589 | 1,992 | 11,089 | 33,138 | 1,351 | 34,489 |
| Loss for the period | 0 | 0 | 0 | 0 | 0 | -532 | -532 | 8 | -524 |
| Other comprehensive expense | 0 | 0 | 0 | 0 | -60 | 0 | -60 | 0 | -60 |
| Transactions with owners | | | | | | | | | |
| Exercise of share options | 0 | 71 | 0 | 0 | 0 | 0 | 71 | 0 | 71 |
| Dividend distribution | 0 | 0 | 0 | 0 | 0 | -1,859 | -1,859 | -768 | -2,627 |
| Total transactions with owners | 0 | 71 | 0 | 0 | 0 | -1,859 | -1,788 | -768 | -2,556 |
| Balance at 30 June 2018 | 18,263 | -1,278 | 2,554 | 589 | 1,932 | 8,698 | 30,758 | 591 | 31,349 |



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 Tallinn Stock Exchange since 18 May 2006.

The condensed consolidated interim financial statements as at and for the period ended 30 June 2018 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 2017.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the second quarter and first half of 2018 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 accounting policies

From 1 January 2018 the Group adopted and began to apply IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, when and how much revenue may be recognised. The standard superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the interpretations related to them. According to the core principle of the new standard, revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be recognised separately, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, a minimum amount of revenue is recognised unless there is significant risk of reversal. The costs incurred to secure contracts with customers are capitalised and amortised over the period in which the benefits of the contract are consumed.

On the initial application of IFRS 15, the Group used the cumulative effect method whereby comparative information is not restated and the effect of the initial application of the standard is recognised on 1 January 2018.

Details of new accounting policies and changes in previously applied policies which are related to the Group's different goods and services are set out below.

Recognition of revenue from construction contracts

Construction contract revenue and costs are recognised as soon as they can be measured reliably using the stage of completion method. Contract revenue comprises the initial amount of revenue agreed in the contract, which may be adjusted for variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being measured reliably. The stage of completion of a contract is determined using the cost method, i.e. based on the proportion that costs incurred bear to the estimated total contract costs. When it is probable that the estimated total contract costs will exceed contract revenue, the expected loss is recognised immediately as an expense as well as a provision in the statement of financial position.

The Group's management analysed the effect of the change in the stage of completion method applied to construction contracts in progress on revenue as at 1 January 2018 and determined that the change in the accounting method did not have a significant effect on revenue. On the adoption of IFRS 15, the losses recognised for onerous contracts in progress of 131 thousand euros which at 31 December 2017 were recognised within trade payables were reclassified to provisions in the statement of financial position.



IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard superseded in material respects IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group applied IFRS 9 retrospectively without restating comparative information in which case the effect of initial application is recognised on 1 January 2018.

Classification of financial instruments

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income and fair value through profit or loss – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if both of the following two conditions are met and the asset has not been designated as measured at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

At initial recognition financial assets (except for trade receivables that do not have a significant financing component, which are measured at initial recognition at their transaction price) are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

After initial recognition, such assets are measured at amortised cost using the effective interest rate method. Interest revenue, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss arising on derecognition is also recognised in profit or loss.

Because of the nature of the Group's operations and the types of financial instruments it holds, the classification and measurement of its financial instruments did not change on the adoption of IFRS 9.

Expected credit loss model

The impairment model in IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event no longer needs to occur before an impairment allowance is recognised.

Under IFRS 9, after the initial recognition of a financial asset a loss allowance for its expected credit losses is recognised and measured using one of the following bases:

- 12-month expected credit losses - these are credit losses that result from default events on a financial instrument that are possible within 12 months after the reporting date; and
- lifetime expected credit losses - these are credit losses that result from all possible default events over the expected life of a financial instrument.

Expected credit losses are probability-weighted estimated credit losses. Credit loss is the difference between the contractual cash flows that are due under the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

On determining whether the credit risk of a financial asset has increased significantly since its initial recognition and on assessing credit losses, the Group considers reasonable and supportable information which is relevant and available without undue cost and effort.

According to the Group's assessment a financial asset is credit-impaired when:

- the debtor is probably unable to meet all its credit-related obligations to the Group; or
- more than 180 days have passed since a payment date.

Because of the types of the Group's financial instruments, their risks and settlement dates as well as the methods used to assess credit losses at 31 December 2017, the adoption of IFRS 9 and the application of the expected credit loss model did not cause any significant increase in the Group's credit losses.



NOTE 2. Trade and other receivables

| EUR '000 | Note | 30 June 2018 | 31 December 2017 |
|--|------|---------------|------------------|
| Current items | | | |
| Trade receivables | | 36,257 | 25,009 |
| Retentions receivable | | 1,220 | 950 |
| Receivables from related parties | | 6 | 19 |
| Miscellaneous receivables | | 20 | 275 |
| Total receivables and loans provided | | 37,503 | 26,253 |
| Due from customers for contract work | | 9,143 | 8,940 |
| Total current trade and other receivables | | 46,646 | 35,193 |

| EUR '000 | Note | 30 June 2018 | 31 December 2017 |
|--|------|--------------|------------------|
| Non-current items | | | |
| Loans provided to related parties | 14 | 8,642 | 8,492 |
| Other non-current receivables | | 451 | 458 |
| Total non-current trade and other receivables | | 9,093 | 8,950 |

NOTE 3. Inventories

| EUR '000 | 30 June 2018 | 31 December 2017 |
|--|---------------|------------------|
| Raw materials and consumables | 3,624 | 2,802 |
| Work in progress | 5,964 | 5,788 |
| Apartments for sale | 10,877 | 3,700 |
| Properties purchased for development and pre-development costs | 3,405 | 10,940 |
| Total inventories | 23,870 | 23,230 |

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first half of 2018, the Group acquired new property, plant and equipment of 1,129 thousand euros (H1 2017: 1,508 thousand euros). Additions comprised equipment and construction machinery required for the Group's operating activities.

Proceeds from the sale of property, plant and equipment amounted to 22 thousand euros (see the statement of cash flows) and associated sales gain amounted to 14 thousand euros (see note 12). In the comparative period, there were no sales of property, plant and equipment.

Intangible assets

In the first half of 2018, the Group did not conduct any significant transactions with intangible assets.

NOTE 5. Borrowings

Current borrowings

| EUR '000 | Note | 30 June 2018 | 31 December 2017 |
|---|------|---------------|------------------|
| Short-term portion of long-term loans | | 6,515 | 1,117 |
| Short-term portion of finance lease liabilities | 6 | 1,871 | 1,644 |
| Short-term bank loans | | 7,730 | 7,787 |
| Factoring liabilities | | 5,325 | 5,649 |
| Total current borrowings | | 21,441 | 16,197 |



Non-current borrowings

| EUR '000 | Note | 30 June 2018 | 31 December 2017 |
|--|------|--------------|------------------|
| Long-term portion of long-term bank loans | | 3,776 | 10,001 |
| Other long-term loans | | 10 | 9 |
| Derivative financial instruments | | 13 | 13 |
| Long-term portion of finance lease liabilities | 6 | 4,148 | 3,932 |
| Total non-current borrowings | | 7,947 | 13,955 |

NOTE 6. Finance and operating leases

| EUR '000 | 30 June 2018 | 31 December 2017 |
|---|--------------|------------------|
| Finance lease liabilities at end of reporting period | 6,019 | 5,576 |
| Of which payable not later than 1 year | 1,871 | 1,644 |
| Of which payable later than 1 year and not later than 5 years | 4,148 | 3,932 |
| Base currency EUR | 6,019 | 5,576 |
| Interest rates of contracts denominated in EUR ¹ | 2.0%-3.9% | 2.0%-3.9% |
| Frequency of payments | Monthly | Monthly |

¹ Includes leases with floating interest rates.

Finance lease payments

| EUR '000 | H1 2018 | H1 2017 |
|---|---------|---------|
| Principal payments made during the period | 888 | 1,149 |
| Interest payments made during the period | 59 | 72 |

Operating lease payments

| EUR '000 | H1 2018 | H1 2017 |
|--|--------------|--------------|
| Operating lease payments made for cars | 441 | 413 |
| Operating lease payments made for construction equipment | 1,871 | 1,528 |
| Operating lease payments made for premises | 352 | 367 |
| Operating lease payments made for IT equipment | 174 | 68 |
| Total operating lease payments | 2,838 | 2,376 |

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 | H1 2018 | H1 2017 |
|--|---------|---------|
| Profit for the period attributable to owners of the parent | -532 | -890 |
| Weighted average number of shares (in thousands) | 30,913 | 30,757 |
| Basic earnings per share (EUR) | -0.02 | -0.03 |
| Diluted earnings per share (EUR) | -0.02 | -0.03 |

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 are engaged in 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 expenses (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.

Second quarter

EUR '000

Q2 2018

| | Buildings | Infrastructure | Total |
|--|---------------|----------------|---------------|
| Total revenue | 43,211 | 18,801 | 62,012 |
| Of which: general contracting services | 41,085 | 17,106 | 58,191 |
| subcontracting services | 536 | 591 | 1,127 |
| own development activities | 1,590 | 0 | 1,590 |
| road maintenance services | 0 | 799 | 799 |
| rental services | 0 | 305 | 305 |
| Inter-segment revenue | 0 | -156 | -156 |
| Revenue from external customers | 43,211 | 18,645 | 61,856 |
| Gross profit of the segment | 1,424 | 1,599 | 3,023 |

EUR '000

Q2 2017

| | Buildings | Infrastructure | Total |
|--|---------------|----------------|---------------|
| Total revenue | 47,123 | 14,120 | 61,243 |
| Of which: general contracting services | 45,209 | 12,196 | 57,405 |
| subcontracting services | 1,008 | 633 | 1,641 |
| own development activities | 906 | 0 | 906 |
| road maintenance services | 0 | 1,163 | 1,163 |
| rental services | 0 | 128 | 128 |
| Inter-segment revenue | 0 | 0 | 0 |
| Revenue from external customers | 47,123 | 14,120 | 61,243 |
| Gross profit of the segment | 1,979 | 771 | 2,750 |



First half-year

| EUR '000 | | | |
|--|------------------|-----------------------|----------------|
| H1 2018 | Buildings | Infrastructure | Total |
| Total revenue | 80,827 | 24,763 | 105,590 |
| Of which: general contracting services | 76,474 | 21,416 | 97,890 |
| subcontracting services | 1,125 | 1,017 | 2,142 |
| own development activities | 3,228 | 0 | 3,228 |
| road maintenance services | 0 | 1,858 | 1,858 |
| rental services | 0 | 472 | 472 |
| Inter-segment revenue | 0 | -176 | -176 |
| Revenue from external customers | 80,827 | 24,587 | 105,414 |
| Gross profit of the segment | 2,661 | 915 | 3,576 |

| EUR '000 | | | |
|--|------------------|-----------------------|----------------|
| H1 2017 | Buildings | Infrastructure | Total |
| Total revenue | 83,835 | 18,607 | 102,442 |
| Of which: general contracting services | 80,978 | 14,631 | 95,609 |
| subcontracting services | 1,755 | 902 | 2,657 |
| own development activities | 1,102 | 0 | 1,102 |
| road maintenance services | 0 | 2,855 | 2,855 |
| rental services | 0 | 219 | 219 |
| Inter-segment revenue | -1 | 0 | -1 |
| Revenue from external customers | 83,834 | 18,607 | 102,441 |
| Gross profit of the segment | 3,476 | 106 | 3,582 |

Reconciliation of segment revenues

| EUR '000 | H1 2018 | Q2 2018 | H1 2017 | Q2 2017 |
|--|----------------|----------------|----------------|----------------|
| Total revenues for reportable segments | 105,590 | 62,012 | 102,442 | 61,243 |
| Elimination of inter-segment revenues | -176 | -156 | -1 | 0 |
| Other revenue | 244 | 140 | 1,060 | 654 |
| Total consolidated revenue | 105,658 | 61,996 | 103,501 | 61,897 |

Reconciliation of segment profit

| EUR '000 | H1 2018 | Q2 2018 | H1 2017 | Q2 2017 |
|---|----------------|----------------|----------------|----------------|
| Total profit for reportable segments | 3,576 | 3,023 | 3,582 | 2,750 |
| Unallocated profits and losses | -377 | -277 | -443 | -235 |
| Consolidated gross profit | 3,199 | 2,746 | 3,139 | 2,515 |
| Unallocated expenses: | | | | |
| Marketing and distribution expenses | -331 | -158 | -334 | -221 |
| Administrative expenses | -3,386 | -1,715 | -3,078 | -1,621 |
| Other operating income and expenses | 143 | 203 | -53 | -7 |
| Consolidated operating loss/profit | -375 | 1,076 | -326 | 666 |
| Finance income | 385 | 250 | 204 | 101 |
| Finance costs | -586 | -282 | -428 | -259 |
| Share of profit of equity-accounted investees | 452 | 515 | 193 | 146 |
| Consolidated loss/profit before tax | -124 | 1,559 | -357 | 654 |



NOTE 9. Segment reporting – geographical information

| EUR '000 | H1 2018 | Q2 2018 | H1 2017 | Q2 2017 |
|---------------------------------------|----------------|---------------|----------------|---------------|
| Estonia | 98,031 | 57,832 | 96,653 | 58,931 |
| Ukraine | 4,168 | 2,666 | 1,253 | 557 |
| Finland | 1,124 | 536 | 1,755 | 1,008 |
| Sweden | 2,695 | 1,137 | 4,398 | 1,736 |
| Elimination of inter-segment revenues | -360 | -175 | -558 | -335 |
| Total revenue | 105,658 | 61,996 | 103,501 | 61,897 |

NOTE 10. Cost of sales

| EUR '000 | H1 2018 | H1 2017 |
|---------------------------------------|----------------|----------------|
| Cost of materials, goods and services | 92,842 | 91,229 |
| Personnel expenses | 8,549 | 8,142 |
| Depreciation expense | 941 | 952 |
| Other expenses | 127 | 39 |
| Total cost of sales | 102,459 | 100,362 |

NOTE 11. Administrative expenses

| EUR '000 | H1 2018 | H1 2017 |
|---------------------------------------|--------------|--------------|
| Personnel expenses | 1,996 | 1,803 |
| Cost of materials, goods and services | 1,239 | 1,170 |
| Depreciation and amortisation expense | 40 | 38 |
| Other expenses | 111 | 67 |
| Total administrative expenses | 3,386 | 3,078 |

NOTE 12. Other operating income and expenses

| EUR '000 | H1 2018 | H1 2017 |
|---|------------|-----------|
| Other operating income | | |
| Gain on sale of property, plant and equipment | 14 | 0 |
| Other income | 205 | 54 |
| Total other operating income | 219 | 54 |

| EUR '000 | H1 2018 | H1 2017 |
|--|-----------|------------|
| Other operating expenses | | |
| Foreign exchange loss | 71 | 1 |
| Net loss on recognition and reversal of impairment losses on receivables | 0 | 30 |
| Loss on write-off of property, plant and equipment | 0 | 10 |
| Other expenses | 5 | 66 |
| Total other operating expenses | 76 | 107 |

NOTE 13. Finance income and costs

| EUR '000 | H1 2018 | H1 2017 |
|-----------------------------|------------|------------|
| Finance income | | |
| Interest income on loans | 138 | 197 |
| Foreign exchange gain | 243 | 0 |
| Other finance income | 4 | 7 |
| Total finance income | 385 | 204 |



| EUR '000 | H1 2018 | H1 2017 |
|----------------------------|------------|------------|
| Finance costs | | |
| Interest expense | 425 | 304 |
| Foreign exchange loss | 154 | 121 |
| Other finance costs | 7 | 3 |
| Total finance costs | 586 | 428 |

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 | H1 2018 | | H1 2017 | |
|--|--------------|-----------|--------------|-----------|
| Counterparty | Purchases | Sales | Purchases | Sales |
| AS Nordic Contractors | 137 | 0 | 153 | 0 |
| Companies of AS Nordic Contractors group | 1 | 3 | 1 | 2 |
| Companies related to owners of AS Nordic Contractors | 371 | 0 | 454 | 0 |
| Equity-accounted investees | 2,149 | 25 | 1,513 | 10 |
| Companies related to members of the council | 42 | 0 | 42 | 0 |
| Total | 2,700 | 28 | 2,163 | 12 |

| EUR '000 | H1 2018 | | H1 2017 | |
|--------------------------|--------------|-----------|--------------|-----------|
| Nature of transactions | Purchases | Sales | Purchases | Sales |
| Construction services | 2,149 | 0 | 1,513 | 0 |
| Goods | 371 | 0 | 454 | 10 |
| Lease and other services | 138 | 28 | 154 | 2 |
| Other transactions | 42 | 0 | 42 | 0 |
| Total | 2,700 | 28 | 2,163 | 12 |

During the period, the Group recognised interest income on loans to associates of 133 thousand euros (H1 2017: 133 thousand euros).

Receivables from and liabilities to related parties at period-end

| EUR '000 | 30 June 2018 | | 31 December 2017 | |
|--|--------------|--------------|------------------|--------------|
| | Receivables | Liabilities | Receivables | Liabilities |
| AS Nordic Contractors | 0 | 8 | 0 | 8 |
| Companies of AS Nordic Contractors group – receivables | 1 | 0 | 1 | 0 |
| Companies related to owners of AS Nordic Contractors | 0 | 343 | 0 | 27 |
| Associates – receivables and liabilities | 5 | 1,768 | 19 | 1,225 |
| Associates – loans and interest | 8,642 | 0 | 8,492 | 0 |
| Total | 8,648 | 2,119 | 8,511 | 1,260 |

Compensation provided to the council and the board

The service fees of the members of the council of Nordecon AS for the first half of 2018 amounted to 94 thousand euros and associated social security charges totalled 31 thousand euros (H1 2017: 73 thousand euros and 24 thousand euros respectively).



The service fees of the members of the board of Nordecon AS amounted to 390 thousand euros and associated social security charges totalled 128 thousand euros (H1 2017: 199 thousand euros and 66 thousand euros respectively). The figures include termination benefits of 93 thousand euros paid to a member of the board and associated social security charges of 31 thousand euros.



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 second quarter and first half of 2018 and confirms that:

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

Gerd Müller

Chairman of the Board

9 August 2018

Priit Luman

Member of the Board

9 August 2018

Maret Tambek

Member of the Board

9 August 2018

Ando Voogma

Member of the Board

9 August 2018