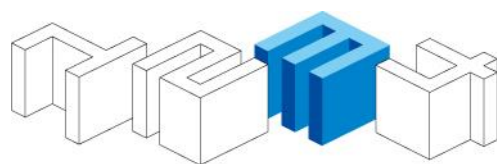




**Financial report for  
the third quarter and nine months of 2020  
(unaudited)**

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## Financial report for the third quarter and nine months of 2020 (unaudited)

<b>Business name</b>	Nordecon AS
<b>Registry number</b>	10099962
<b>Address</b>	Toompuiestee 35, 10149 Tallinn, Estonia
<b>Domicile</b>	Republic of Estonia
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<b>Corporate website</b>	<a href="http://www.nordecon.com">www.nordecon.com</a>
<b>Core business lines</b>	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)
<b>Financial year</b>	1 January 2020 – 31 December 2020
<b>Reporting period</b>	1 January 2020 – 30 September 2020
<b>Council</b>	Toomas Luman (chairman of the council), Andri Hõbemägi, Andre Luman, Vello Kahro, Sandor Liive
<b>Board</b>	Gerd Müller (chairman of the board), Priit Luman, Maret Tambek
<b>Auditor</b>	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. Our core business is supported by 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, 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.



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## Directors' report

### Strategic agenda for 2019-2022

The Group's strategic business agenda and targets for the period 2019-2022

#### Business lines and markets

- The Group will grow, mostly organically, with a focus on a more efficient use of its existing resources.
- In Estonia, we will operate, as a market leader, in both the building and infrastructure construction segments.
- 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 and concrete works, primarily in Kiev and the surrounding area.

#### Activities for implementing the strategy

- Improving profitability through more precise planning of our design and construction operations.
- Increasing our design and digitalisation capabilities.
- Simplifying and automating work and decision-making processes.
- Monitoring the balance between the contract portfolios of different business segments.
- Valuing balanced teamwork where youthful energy and drive complement long-term experience.
- Noticing and recognising each employee's individual contribution and initiative.

#### Financial targets

- Revenue will grow by at least 10% per year.
- Foreign markets' contribution will increase to 20% of revenue.
- Real estate development revenue will grow to 10% of revenue earned in Estonia.
- Operating margin for the year will be consistently above 3%.
- Operating profit per employee will increase to at least 10 thousand euros per year.
- We will, on average, distribute at least 30% of profit for the year as dividends.



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## Outlooks of the Group's geographical markets

### Estonia

#### Processes and developments characterising the Estonian construction market:

- In 2020, public investments that influence the construction market will not increase significantly compared to 2019. In the market as a whole, however, the impact of investments made by the largest public-sector entities (the state-owned real estate company Riigi Kinnisvara AS, the National Road Administration, the Centre for Defence Investment, etc.) that will reach the signature of a construction contract in 2020 will grow. The negative economic effects of the coronavirus (COVID-19) pandemic will reduce the volume of new orders placed by the private sector, which will affect mainly the year 2021.
- Competition remains stiff across the construction market, intensifying in different segments consistent with market developments. This is reflected in the consistently high number of bidders for construction contracts, which has grown even further against the backdrop of an economic downturn. A sharp decrease in new orders from the private sector has halted recent years' rapid upsurge in input prices and, if the decline in construction volumes continues, this may lower general construction and materials prices for a while. It is clear that in a changed environment, it is essential to focus not only on the usual activities that enhance competitiveness but also on cost management and the capacity to respond swiftly to market changes.
- In housing development, the success of a project will depend 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. A certain market saturation, credit institutions' more limited financing of buyers, and the COVID-19 pandemic which has triggered an economic slowdown and growth in unemployment, are prolonging real estate sales.
- There is often a striking contrast between the stringent terms of public construction contracts, which impose a large number of obligations, strict sanctions, different financial guarantee commitments, etc. and the modest eligibility criteria. 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. However, they have also heightened the financial, completion delay, and quality risks taken by customers during the contract performance and the subsequent warranty period.
- In the near term, the input prices of certain types of construction work may temporarily decline because there is a lot of uncertainty about the duration and extent of the adverse effects of COVID-19. The market is contracting and until the trend persists, there will be increasing pressure to lower input prices.
- The shortage of skilled labour (including project and site managers) may decrease temporarily when the market shrinks, but in the long term the sector will need additional competent professionals, including foreign labour whose contribution has supported recent years' market growth. The restrictions imposed on labour mobility and the departure of foreign workers in connection with the COVID-19 pandemic have started causing temporary delays in construction work, which may affect the originally planned construction schedules.

### Ukraine

In Ukraine, we are mainly involved in general contracting and project management in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity has increased in recent years. We expect that in 2020 our business volumes in Ukraine will remain at a level comparable to 2019. We assess the situation in the Ukrainian construction market regularly and are ready to restructure our operations as and when necessary. We continue to seek opportunities to exit 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 been offering mainly subcontracting services in the concrete work segment. In the past year, however, we have also secured some smaller-scale contracts as a general contractor. 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 excessive risks. Finland's moderate economic growth has also had a certain positive effect on its construction sector.



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## Sweden

In the Swedish market, we offer mainly the construction of residential and non-residential buildings in the central part of the country. In gaining experience in the new market, we have prioritised quality and adherence to deadlines over profitability. The decline in real estate prices that emerged in 2018 has reduced demand for housing construction. As a result, the starting dates of many projects have been postponed. Compared to the peak in 2017, housing construction volumes have dropped by around a third. The slowdown has affected the Stockholm area the most. Even though the worst downturn seems to be over, there are no signs of growth and housing construction volumes are expected to shrink further in 2020. The trend is also influenced by the COVID-19 pandemic: there are signs that customers are postponing their investment decisions until the situation has stabilised.



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## 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. The demand for construction services continues to be strongly influenced by the volume of public investment which, in turn, depends partly on the co-financing received from the EU structural funds. The construction market is also strongly affected by the COVID-19 pandemic, which has lessened the volume of private investment.

Competition continues to be stiff in all segments of the construction market. Bidders' prices are under strong competitive pressure. Increasingly, bidders include not only rival general contractors but also former subcontractors. This is mainly attributable to the central and local governments' policy to keep the eligibility requirements for bidders for public contracts low, which sometimes results in quality and timely completion being sacrificed to the lowest price. We acknowledge the risks involved in performing contracts signed in an environment of stiff competition and the current economic uncertainties. In setting our prices in such an environment, we focus on ensuring a reasonable balance between contract performance risks and tight cost control.

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 only one narrow 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 mitigate 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. The Group's long-term goal is to be flexible and keep its two operating segments in relative balance. Where possible, our entities also implement different technical solutions that help them work efficiently in changing 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 the performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 30 September 2020, the Group's warranty provisions (including current and non-current ones) totalled 1,475 thousand euros (30 September 2019: 728 thousand euros).

In addition to managing the risks directly related to construction operations, we seek to mitigate the risks inherent in pre-construction 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.





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## Financial risks

### Credit risk

The Group's credit losses for the period amounted to 64 thousand euros. Credit losses in the comparative period amounted to 10 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 ratio was 1.0 (30 September 2019: 0.93). The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associate 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, the Group's loan receivables from its Ukrainian associate of 8,196 thousand euros were classified as non-current assets at the reporting date.

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 September 2020, the Group's short-term borrowings totalled 19,196 thousand euros (30 September 2019: 17,243 thousand euros).

The Group's cash and cash equivalents as at the reporting date amounted to 7,640 thousand euros (30 September 2019: 8,630 thousand euros).

### Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is Euribor. Compared to the same period in 2019, the Group's interest-bearing borrowings have increased by 1,567 thousand euros. Predominantly lease liabilities have increased. Interest-bearing borrowings totalled 27,379 thousand euros at 30 September 2020 (30 September 2019: 25,812 thousand euros). Interest expense for the first nine months of 2020 amounted to 792 thousand euros (9M 2019: 738 thousand euros).

The main source of interest rate risk is a possible rise in the base rates of floating interest rates (EURIBOR, EONIA or a base rate calculated by the creditor). In the light of the Group's relatively heavy loan burden, this would increase interest expense significantly, 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 lease of an 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 the discontinuance of the determination of the national currency's indicative exchange rate by the National Bank of Ukraine at the beginning of 2015. The hryvnia weakened against the euro by approximately 20% in the first nine months of 2020. As a result, the Group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of 1,255 thousand euros (9M 2019: a gain of 1,040 thousand euros). Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs*, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.



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Our Ukrainian and non-Ukrainian entities' reciprocal receivables and liabilities that 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 associate in euros give rise to any exchange gains or losses in the Group's financial statements.

The Swedish krona weakened against the euro by around 1% in the first nine months of 2020. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange gain of 84 thousand euros (9M 2019: a loss of 258 thousand euros). Exchange gains and losses are recognised in the statement of comprehensive income within *Finance income* and *Finance costs*, respectively.

We have not acquired derivatives to hedge our currency risk.

#### **Employee and work environment risks**

Finding a permanent quality workforce is a challenge for the entire construction sector and also one of the main factors that influences business performance. To strengthen Nordecon's reputation as an employer and make sure that we will have employees in the future, we collaborate with educational institutions. Consistent employee development is essential and one of our acknowledged priorities. We also rely on our subcontractors' ability to find personnel with the required skills and qualifications.

We strive to minimise the occupational health and safety risks of people working on our construction sites, including both our own teams and those of our subcontractors, by applying all measures required by law and our management systems. Subcontractors are responsible for ensuring occupational safety in their work and for their employees and our role is to create conditions that enable and foster compliance with safety regulations.

#### **Environmental risks**

Construction activities have a direct impact on wildlife, soil and the physical environment. Therefore, in conducting our operations we strive to protect the surrounding environment and nature as much as possible. The Group's assets and operations which have the strongest impact on the environment and, thus, involve the highest environmental risk are asphalt plants, quarries used for the extraction of construction materials and road construction operations. The main environmental protection measures on construction sites include efficient materials utilisation and proper waste management. Excessive waste, leakage, spillage, pollution, destruction of wildlife and other damage to the environment is prevented by complying with legal requirements. All of the Group's construction entities have implemented environmental management standard ISO 14001.

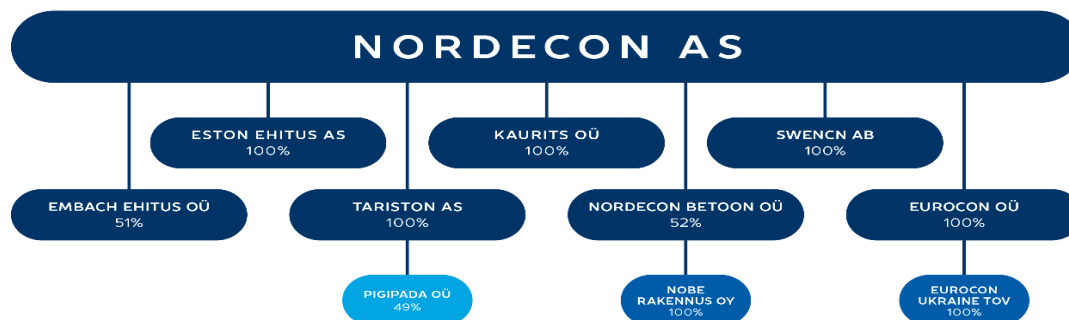
#### **Corruption and ethical risks**

Nordecon is one of the leading construction companies in the Estonian market. Therefore, it is important for us to be aware of the risks involved in breaching honest and ethical business practices. The Group has established internal procedures and policies, observes the rules of the Tallinn Stock Exchange and works with external and internal auditors as well as supervisory agencies. We make every effort to ensure that our entities' management quality, organizational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour. Transparent decisions and open communication are underpinned by effective internal cooperation and external communication. Openness is also supported by the continuously increasing implementation of IT solutions.



## Group structure

The Group's structure at 30 September 2020, 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, Kastani Kinnisvara OÜ, EE Ressursid OÜ, SWENCN OÜ, Nordecon Statyba UAB, Eurocon Bud TOV, Technopolis-2 TOV and the associate V.I. Center TOV, which currently do not engage in any significant business activities. The first four were established to protect business names. Nor does the structure include investments in entities in which the Group's interest is less than 20%.

### Significant changes in Group structure

#### Increase in ownership interest in Embach Ehitus OÜ

A change in the capital structure of Nordecon AS's former associate Embach Ehitus OÜ was finalised and entered in the Commercial Registry on 5 March 2020. As a result of the transaction, Nordecon AS increased its ownership interest to 51% and Embach Ehitus OÜ became a subsidiary of Nordecon AS. The share capital of Embach Ehitus OÜ amounts to 30,000 euros of which 15,300 euros is held by Nordecon AS. Embach Ehitus OÜ has been accounted for as a subsidiary and its financial information has been consolidated in the financial statements of Nordecon AS since 1 March 2020.

### Significant changes in Group structure after the reporting period

#### Merger of Eston Ehitus AS with Nordecon AS

Nordecon AS and its wholly-owned subsidiary Eston Ehitus AS signed a merger agreement on 2 September 2020. The purpose of the transaction was to improve the Group's internal efficiency and to streamline its management structure. Consistent with the merger agreement, the acquirer was Nordecon AS that became the legal successor to Eston Ehitus AS which was dissolved. The merger was finalised on 15 October 2020.



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## 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, providing services in practically all market subsegments. 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 (brand name NOBE) and Embach Ehitus OÜ.

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.

### Foreign markets

#### Ukraine

There were no changes in our Ukrainian operations during the period under review. In the first nine months of 2020, our business activity in Ukraine decreased compared to the same period in 2019. The Group maintains a conservative approach: we sign contracts only when we are certain that the risks involved are reasonable given the circumstances.

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

#### Finland

The Group's subsidiary Nordecon Betoon OÜ and its Finnish subsidiary NOBE Rakennus OY continued to provide subcontracting services in the concrete work segment in Finland. Besides subcontracts, we signed the first contracts as a general contractor.

#### Sweden

There were no significant changes in our Swedish operations during the period under review. The Group's subsidiary SweNCN AB continued to deliver services under building construction contracts secured as a general contractor.



## Performance by geographical market

The revenue contribution of the Groups foreign markets increased year on year, rising to approximately 12% of the Group's total revenue for the first nine months of 2020.

	9M 2020	9M 2019	9M 2018	2019
Estonia	88%	91%	94%	89%
Sweden	6%	3%	2%	5%
Finland	5%	4%	1%	4%
Ukraine	1%	2%	3%	2%

The revenue contribution of the Swedish market grew significantly year on year. During the period, we provided services under three building construction contracts secured as a general contractor and one concrete works subcontract. Finnish revenues grew somewhat, underpinned by concrete works subcontracts signed in the building construction segment and two general contractor's contracts signed in the agriculture sector. Revenue generated in the Ukrainian market and its proportionate share in the Group's total revenue decreased.

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

## Performance by business line

### Segment revenues

The Group ended the first nine months of 2020 with revenue of 217,664 thousand euros, a roughly 26% improvement on the 172,237 thousand euros generated in the first nine months of 2019. Revenue growth was driven by the strong performance of the Buildings segment, which increased its revenue by 38%. Based on the size of its order book, revenue growth in the Buildings segment was expected (see the chapter *Order book*). The Infrastructure segment's revenue, on the other hand, decreased by 2% compared to the same period last year.

The limited volume of infrastructure construction projects, which continues to affect the entire Estonian construction market, is also reflected in our revenue structure. In in the first nine months of 2020, our Buildings and Infrastructure segments generated revenue of 169,439 thousand euros and 48,025 thousand euros, respectively. The corresponding figures for in the first nine months of 2019 were 122,825 thousand euros and 49,138 thousand euros (see note 8).

Operating segments *	9M 2020	9M 2019	9M 2018	2019
Buildings	75%	70%	71%	70%
Infrastructure	25%	30%	29%	30%

\* 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 are allocated in both parts of the report based on the nature of the work.



## Subsegment revenues

In the Buildings segment, all subsegments delivered lesser or greater year-on-year revenue growth. The fastest-growing subsegment was public buildings, which increased its revenue by 78%. It was also the largest revenue contributor, generating approximately a third of total segment revenue. During the period, we completed and delivered on time the Estonian Academy of Security Sciences and the University of Tartu Learning Centre in Narva, phase I of Kindluse Kool – a basic school in Järveküla near Tallinn, and the Annelinn upper secondary school in Tartu. The largest projects in progress in the public buildings subsegment are the construction of a storage complex for the defence forces' base at Tapa, a sports and health centre at Kohtla-Järve, a family health centre in Tartu, and an extension to the building of the Estonian Foreign Intelligence Service in Rahumäe tee in Tallinn, and the reconstruction of two schools in East Ukraine.

The largest projects of the commercial buildings subsegment that generated revenue in the reporting period are in Tallinn. The construction of a seven-floor commercial building in Rotermann City continues. We completed and delivered on time the building of Terminal D in the Old City Harbour, phase I of the Porto Franco commercial and office development next to the Admiralty Basin, and a multi-storey car park at Sepapaja 1 in Tallinn.

A significant share of our Estonian apartment building projects is located in Tallinn. During the period under review, the largest of them were the design and construction of the first two phases of the Kalaranna quarter, and the design and construction of the Tiskreoja residential area on the western border of Tallinn. Similarly to previous periods, a major share of the subsegment's revenue came from the construction of apartment buildings in Sweden.

We continue to build our own housing development projects in Tallinn and Tartu (reported in the apartment buildings subsegment). During the period, we completed a five-floor apartment building with 24 apartments at Võidujooksu 8c in Tallinn ([www.voidujooksu.ee](http://www.voidujooksu.ee)). Revenue from our own real estate development operations amounted to 2,455 thousand euros (9M 2019: 6,388 thousand euros). In carrying out our own real estate development activities, we monitor closely potential risks in the housing development market.

Although the amount and share of revenue generated by the industrial and warehouse facilities subsegment remained modest compared to other subsegments, its revenue grew more than two times compared to the same period in 2019. Still, the values of projects in progress are small, amounting to 2 million euros on average. Based on the order book, we thus expect that the subsegment's revenue contribution will remain modest in 2020.

Revenue breakdown in the Buildings segment	9M 2020	9M 2019	9M 2018	2019
Public buildings	36%	28%	27%	29%
Apartment buildings	28%	30%	22%	27%
Commercial buildings	25%	35%	36%	36%
Industrial and warehouse facilities	11%	7%	15%	8%

Although the largest revenue contributor in the Infrastructure segment is still road construction and maintenance, both the proportion and amount of its revenue have decreased year-on-year. A significant share of its revenue results from road rehabilitation contracts of 2 to 3 million euros each. The largest projects in progress include a contract secured in 2019 for the construction of the Kernu bypass as well as the Kernu filling station and Haiba junctions on the Tallinn-Pärnu-Ikla road, and a contract signed this year for the construction of the Vão junction on the eastern border of Tallinn. In addition to road construction and maintenance, the subsegment builds infrastructure assets for the defence forces, and improves forest roads under a number of small contracts signed with the State Forest Management Centre. We also continue to provide road maintenance services in Järva and Hiiumaa counties and the Kose maintenance area in Harju county.

The revenue of the other engineering subsegment is strongly influenced by the construction of foundations for 73 wind turbines in the Nysäter wind farm, which is being built in northern Sweden, near Sundsvall.

During the period, work continued on the construction of a 640-metre waterfront promenade at Sillamäe, which accounts for a significant share of the revenue of the specialist engineering subsegment.

Revenue breakdown in the Infrastructure segment	9M 2020	9M 2019	9M 2018	2019
Road construction and maintenance	77%	81%	91%	78%
Other engineering	18%	16%	6%	18%
Specialist engineering (including hydraulic engineering)	4%	0%	0%	1%
Environmental engineering	1%	3%	3%	3%



## Financial review

### Financial performance

Nordecon ended the first nine months of 2020 with a gross profit of 9,515 thousand euros (9M 2019: 7,721 thousand euros). Gross margin was 4.4% for nine months (9M 2019: 4.5%) and 4.3% for the third quarter (Q3 2019: 6.2%). In the Buildings segment, gross margin decreased year on year, dropping to 4.7% for nine months and 4.0% for the third quarter (9M 2019: 5.4% and Q3 2019: 5.1%). The decline is mainly attributable to a loss-making housing development project completed in Sweden. In the Infrastructure segment, gross margin improved year on year, rising to 4.6% for nine months and 5.9% for the third quarter (9M 2019: 4.0% and Q3 2019: 9.2%). The segment's nine-month result was influenced by an earlier start of the road construction season and a strong order book. Despite the fact that market players' capacity to produce asphalt concrete considerably exceeds market demand, the Group's asphalt concrete output grew year on year, providing cover for fixed costs, the largest share of which is made up of costs related to the plant and equipment required for asphalt concrete production and laying.

The Group's administrative expenses for the first nine months of 2020 totalled 5,312 thousand euros. Compared to the same period in 2019, administrative expenses increased by around 14% (9M 2019: 4,668 thousand euros). The rise is attributable to growth in personnel expenses and depreciation (see note 11) as well as the fact that Embach Ehitus OÜ became a subsidiary (see the chapter *Group structure*). The ratio of administrative expenses to revenue (12 months rolling) was 2.7, remaining virtually the same as a year earlier (9M 2019: 2.8%).

The Group's operating profit for the first nine months of 2020 was 3,952 thousand euros (9M 2019: 2,498 thousand euros). Operating margin improved year on year, rising to 1.8% for the nine months of 2020 (9M 2019: 1.5%). EBITDA amounted to 6,512 thousand euros (9M 2019: 4,732 thousand euros).

Finance income and costs of the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets, particularly the movements in the exchange rate of the Ukrainian hryvnia, which weakened against the euro by approximately 20%. In contrast to the first nine months of 2019 when the Group earned a foreign exchange gain, in the reporting period the translation of loans provided to the Ukrainian subsidiaries in euros resulted in a foreign exchange loss of 1,255 thousand euros (9M 2019: an exchange gain of 1,040 thousand euros). The Swedish krona weakened against the euro by around 1%. The foreign exchange gain recognised in finance income in connection with the translation of a loan provided to the Swedish subsidiary in euros amounted to 84 thousand euros (9M 2019: a foreign exchange loss of 258 thousand euros).

The Group's net profit amounted to 3,004 thousand euros (9M 2019: 2,876 thousand euros). The profit attributable to owners of the parent, Nordecon AS, was 1,040 thousand euros (9M 2019: 2,532 thousand euros).

### Cash flows

In the first nine months of 2020, operating activities produced a net cash outflow of 279 thousand euros (9M 2019: an inflow of 6,189 thousand euros). The key factor that affects operating cash flow is the mismatch between the settlement terms agreed with customers and suppliers. Operating cash flow is also strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments while the Group has to make prepayments to subcontractors and materials suppliers. In 2020, the share of prepayments has increased due to the COVID-19 pandemic. Cash inflow is also reduced by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities resulted in a net cash inflow of 3,948 thousand euros (9M 2019: an inflow of 489 thousand euros). The transaction with the strongest impact was the transformation of Embach Ehitus OÜ from an associate into a subsidiary, which generated cash inflow of 3,605 thousand euros. Cash flow was also influenced by payments made for the acquisition of property, plant and equipment of 184 thousand euros (9M 2019: 216 thousand euros) and proceeds from the sale of property, plant and equipment of 246 thousand euros (9M 2019: 215 thousand euros). Dividends received amounted to 251 thousand euros (9M 2019: 489 thousand euros).

Financing activities generated a net cash outflow of 3,045 thousand euros (9M 2019: an outflow of 5,713 thousand euros). The largest items were loan and lease payments and dividends paid. Proceeds from loans received totalled 2,333 thousand euros, comprising the use of the overdraft facility and development loans (9M 2019: 3,036 thousand euros). Loan repayments totalled 1,949 thousand euros (9M 2019: 3,245 thousand euros), consisting of regular repayments of long-term investment and development loans. Lease payments totalled 2,167 thousand euros (9M 2019: 2,400 thousand euros). Dividends paid in the first nine months of 2020 amounted to 472 thousand euros (9M 2019: 2,360 thousand euros).



The Group's cash and cash equivalents totalled 7,640 thousand euros at 30 September 2020 (30 September 2019: 8,630 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	9M 2020	9M 2019	9M 2018	2019
Revenue (EUR '000)	217,664	172,237	167,588	234,071
Revenue change	26.4%	2.8%	-4.2%	4.7%
Net profit (EUR '000)	3,004	2,876	2,154	4,149
Net profit attributable to owners of the parent (EUR '000)	1,040	2,532	1,972	3,378
Weighted average number of shares	31,528,585	31,528,585	30,986,585	31,528,585
Earnings per share (EUR)	0.03	0.08	0.06	0.11
Administrative expenses to revenue	2.4%	2.7%	3.0%	2.9%
Administrative expenses to revenue (rolling)	2.7%	2.8%	2.9%	2.9%
EBITDA (EUR '000)	6,512	4,732	3,879	7,311
EBITDA margin	3.0%	2.7%	2.3%	3.1%
Gross margin	4.4%	4.5%	4.0%	5.0%
Operating margin	1.8%	1.5%	1.4%	1.8%
Operating margin excluding gain on asset sales	1.8%	1.4%	0.8%	1.7%
Net margin	1.4%	1.7%	1.3%	1.8%
Return on invested capital	6.2%	5.8%	5.4%	10.0%
Return on equity	8.5%	8.8%	6.4%	12.5%
Equity ratio	25.8%	25.9%	28.6%	27.9%
Return on assets	2.3%	2.5%	1.9%	3.7%
Gearing	30.2%	30.0%	29.1%	33.8%
Current ratio	1.00	0.93	0.96	1.01
<b>As at</b>	<b>30 Sept 2020</b>	<b>30 Sept 2019</b>	<b>30 Sept 2018</b>	<b>31 Dec 2019</b>
Order book (EUR '000)	215,494	196,493	131,953	227,545

Revenue change = (revenue for the reporting period / revenue for the previous period) - 1 * 100	Net margin = (net profit or loss for the period / revenue) * 100
Earnings per share (EPS) = net profit or loss attributable to owners of the parent / weighted average number of shares outstanding	Return on invested capital = ((profit or loss before tax + interest expense) / the period's average (interest-bearing liabilities + equity)) * 100
Administrative expenses to revenue = (administrative expenses / revenue) * 100	Return on equity = (net profit or loss for the period / the period's average total equity) * 100
Administrative expenses to revenue (rolling) = (past four quarters' administrative expenses / past four quarters' revenue) * 100	Equity ratio = (total equity / total liabilities and equity) * 100
EBITDA = operating profit or loss + depreciation and amortisation + impairment losses on goodwill	Return on assets = (net profit or loss for the period / the period's average total assets) * 100
EBITDA margin = (EBITDA / revenue) * 100	Gearing = ((interest-bearing liabilities - cash and cash equivalents) / (interest-bearing liabilities + equity)) * 100
Gross margin = (gross profit or loss / revenue) * 100	Current ratio = total current assets / total current liabilities
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	





## Order book

The Group's order book (backlog of contracts signed but not yet performed) stood at 215,494 thousand euros at 30 September 2020, a 10% increase year on year. In the third quarter, we signed new contracts of 87,751 thousand euros (Q3 2019: 69,894 thousand euros).

As at	30 Sept 2020	30 Sept 2019	30 Sept 2018	31 Dec 2019
Order book (EUR '000)	215,494	196,493	131,953	227,545

The breakdown of the order book between the two segments has not changed significantly: the volume of contracts secured by the Buildings segment is still substantially larger, accounting for 79% of the Group's total order book while contracts secured by the Infrastructure segment account for 21% (30 September 2019: 80% and 20%, respectively). Compared to 30 September 2019, the order books of both segments have increased. The order book of the Buildings segment has grown by around 7% and that of the Infrastructure segment by 20%. Around two thirds of the Group's order book is made up of projects that will continue in 2021 and 2022.

The order book of the public buildings subsegment accounts for roughly a half of the order book of the Buildings segment. Its growth is mainly attributable to a contract signed at the beginning of the third quarter for the construction of phase III of the Maarjamõisa Medical Campus of the Tartu University Hospital. In phase III, the building complex at L. Puusepa 8 will be added two new blocks: the M Block, which will house a children's hospital, and the C Block, which will house an ear clinic, a women's clinic, a family centre, and a day surgery. The cost of the contract is 47.3 million euros. In addition, in the third quarter we signed contracts for the construction of an academic building for an upper secondary school in Kuressaare on the island of Saaremaa and for the design and construction of a barracks for 300 people in the defence forces base at Paldiski. The order books of the apartment buildings and the industrial and warehouse facilities subsegments have remained at the same level as at 30 September 2019. A major share of the order book of the apartment buildings subsegment is made up of a contract of around 40 million euros for the design and construction of the first two phases of the Kalaranna quarter in Tallinn. A significant share of the order book of the industrial and warehouse facilities subsegment is made up of contracts for the construction of a dairy complex for E-Piim in Paide and two shed complexes in Finland. The order book of the commercial buildings subsegment has decreased substantially year on year. Its largest projects in progress are the construction of a new seven-floor commercial building in Rotermann City in Tallinn and a store building for Lidl Eesti OÜ in Tartu.

Contracts secured by the road construction and maintenance subsegment account for 74% of the order book of the Infrastructure segment. The size of the order book is strongly influenced by a contract secured in the second quarter for the construction of the Vão junction on the eastern border of Tallinn. Nordecon Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. We have signed a new five-year contract for maintaining national roads in the Järva maintenance area. The contract involves year-round maintenance of around 950 km of national roads in Järva county. Based on the rates for 2020, the total cost of the contract is approximately 10.7 million euros. Other engineering contracts account for 15% of the order book of the Infrastructure segment. A major share of the order book of the other engineering subsegment is made up of a contract secured in 2019 for the construction of foundations for 73 wind turbines in the Nysäter wind farm in northern Sweden, near Sundsvall.

A large part of the contracts signed in the third quarter came from the public sector. The volume of work secured from the private sector has decreased sharply and the commencement of many projects that have been announced has been postponed. Customers are increasingly expecting that general contractors should lower their prices but the input prices charged by subcontractors have not decreased as anticipated. This has put profit margins under strong pressure. In an environment of stiff competition, we have avoided taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Our main focus is on cost control and pre-construction and design activities in order to harness our professional competitive advantages.

Between the reporting date (30 September 2020) and the date of release of this report, Group companies have secured additional construction contracts in the region of 16,640 thousand euros.



## People

### Employees and personnel expenses

In the first nine months of 2020, the Group (the parent and the subsidiaries) employed, on average, 703 people, including 422 engineers and technical personnel (ETP). Headcount increased by around 2% compared with the same period in 2019. The number of engineers and technical personnel grew due to a change in the Group's structure: Embach Ehitus OÜ became a subsidiary, which increased the group's workforce by 40 employees (see the chapter *Group structure*).

#### Average number of employees at Group entities (including the parent and the subsidiaries):

	9M 2020	9M 2019	9M 2018	2019
ETP	422	413	425	414
Workers	261	276	272	273
<b>Total average</b>	<b>703</b>	<b>689</b>	<b>697</b>	<b>687</b>

The Group's personnel expenses for the first nine months of 2020 including all taxes, totalled 19,476 thousand euros. The figure for the same period in 2019 was 17,772 thousand euros. Personnel expenses grew by around 10% year on year, mainly in connection with Embach Ehitus OÜ becoming a subsidiary and the payment of project-based performance bonuses.

The service fees of the members of the council of Nordecon AS for the first nine months of 2020 amounted to 135 thousand euros and associated social security charges totalled 45 thousand euros (9M 2019: 140 thousand euros and 46 thousand euros, respectively).

The service fees of the members of the board of Nordecon AS amounted to 357 thousand euros and associated social security charges totalled 118 thousand euros (9M 2019: 356 thousand euros and 117 thousand euros, respectively).

### Labour productivity and labour cost efficiency

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

	9M 2020	9M 2019	9M 2018	2019
Nominal labour productivity (rolling), (EUR '000)	400.4	335.0	318.6	340.6
Change against the comparative period, %	19.5%	5.1%	3.4%	4.7%
Nominal labour cost efficiency (rolling), (EUR)	10.3	9.5	9.6	9.2
Change against the comparative period, %	8.4%	-0.6%	-6.7%	-5.0%

Nominal labour productivity (rolling) = (past four quarters' revenue) / (past four quarters' average number of employees)

Nominal labour cost efficiency (rolling) = (past four quarters' revenue) / (past four quarters' personnel expenses)

The Group's nominal labour productivity and nominal labour cost efficiency have improved year on year, primarily through revenue growth.



## Share and shareholders

### Share information

<b>Name of security</b>	Nordecon AS ordinary share
<b>Issuer</b>	Nordecon AS
<b>ISIN code</b>	EE3100039496
<b>Ticker symbol</b>	NCN1T
<b>Nominal value</b>	No par value*
<b>Total number of securities issued</b>	32,375,483
<b>Number of listed securities</b>	32,375,483
<b>Listing date</b>	18 May 2006
<b>Market</b>	Nasdaq Tallinn, Baltic Main List
<b>Industry</b>	Construction and engineering
<b>Indexes</b>	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.

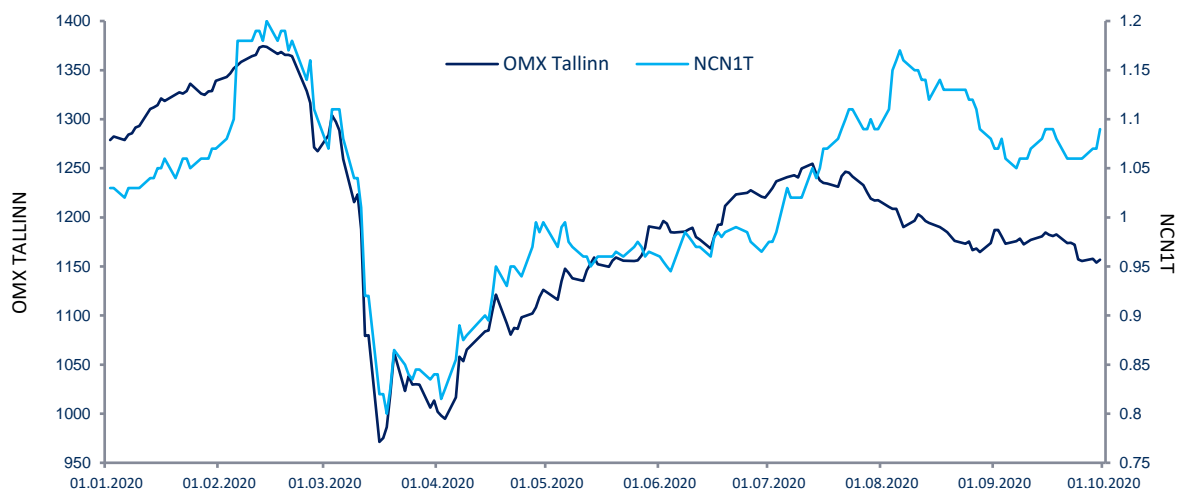
### Movements in the price and trading volume of the Nordecon AS share in 9M 2020

Movements in the share price are in euros and daily turnover in the bar chart is in thousands of euros.





## Movement of the share price compared to the OMX Tallinn index in 9M 2020



Index/equity	1 January 2020*	30 September 2020	+/-
OMX Tallinn	1,279.70	1,156.86	-9.6%
NCN1T	EUR 1.03	EUR 1.09	5.83%

\* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2019

## Summarised trading results

### Share trading history (EUR)

Price	9M 2020	9M 2019	9M 2018
Open	1.04	0.91	1.25
High	1.21	1.09	1.29
Low	0.78	0.89	0.98
Last closing price	1.09	1.00	0.98
Traded volume (number of securities traded)	5,311,660	2,831,083	1,512,959
Turnover, in EUR millions	5.21	2.82	1.74
Listed volume (30 September), in thousands	32,375	32,375	32,375
Market capitalisation (30 September), in EUR millions	35.29	32.21	31.73

## Shareholder structure

### Largest shareholders in Nordecon AS at 30 September 2020

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	17,507,464	54.08
Lüksusjaht AS	4,288,403	13.25
Olegs Radcenko	516,295	1.59
SEB Pank AS kliendid	503,188	1.55
Lembit Talpsepp	350,786	1.08
ASM Investments OÜ	310,000	0.96
Mati Kalme	294,000	0.91
SEB Life and Pension Baltic SE Estonian branch	255,000	0.79
Genadi Bulatov	250,600	0.77
Riivo Pappel	237,500	0.73



## Shareholder structure of Nordecon AS at 30 September 2020

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	67.32
Shareholders with interest from 1% to 5%	3	4.23
Shareholders with interest below 1%	2,968	25.83
Holder of own (treasury) shares	1	2.62
<b>Total</b>	<b>2,974</b>	<b>100</b>

## Shares controlled by members of the council of Nordecon AS at 30 September 2020

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	17,579,144	54.30
Andri Hõbemägi	Member of the Council	50,000	0.15
Andre Luman	Member of the Council	25,000	0.08
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
<b>Total</b>		<b>17,664,144</b>	<b>54.56</b>

\* Companies controlled by the individual

## Shares controlled by members of the board of Nordecon AS at 30 September 2020

Board member		Number of shares	Ownership interest (%)
Gerd Müller	Chairman of the Board	0	0.00
Priit Luman	Member of the Board	7,000	0.02
Maret Tambek	Member of the Board	0	0.00
<b>Total</b>		<b>7,000</b>	<b>0.02</b>

## 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 thousand 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 thousand new shares with a total cost of 1,582 thousand euros, increasing share capital by 1,035 thousand euros to 20,692 thousand euros, and acquired the same number of own (treasury) shares at the same price.

The annual general meeting which convened on 24 May 2017 approved some changes to the option plan. The term for exercising a share option was extended. An option could be exercised within 15 months after the general meeting had 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 since 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 September 2020, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 800,398 shares had expired and options for the acquisition of 588,500 shares were still exercisable.



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## 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

5 November 2020

Priit Luman

Member of the Board

5 November 2020

Maret Tambek

Member of the Board

5 November 2020



## Condensed consolidated interim financial statements

### Consolidated statement of financial position

EUR '000	Note	30 September 2020	31 December 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		7,640	7,032
Trade and other receivables	2	61,532	37,563
Prepayments		4,208	1,813
Inventories	3	24,080	21,142
<b>Total current assets</b>		<b>97,460</b>	<b>67,550</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees		1,802	2,369
Other investments		26	26
Trade and other receivables	2	8,615	8,435
Investment property		6,301	5,530
Property, plant and equipment		18,451	19,002
Intangible assets		14,924	14,736
<b>Total non-current assets</b>		<b>50,119</b>	<b>50,098</b>
<b>TOTAL ASSETS</b>		<b>147,579</b>	<b>117,648</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	5, 6	19,196	11,058
Trade payables		60,286	40,730
Other payables		9,440	7,954
Deferred income		7,550	6,391
Provisions		1,156	716
<b>Total current liabilities</b>		<b>97,628</b>	<b>66,849</b>
<b>Non-current liabilities</b>			
Borrowings	5, 6	8,187	16,326
Trade payables		98	98
Other payables		2,283	177
Provisions		1,339	1,425
<b>Total non-current liabilities</b>		<b>11,907</b>	<b>18,026</b>
<b>TOTAL LIABILITIES</b>		<b>109,535</b>	<b>84,875</b>
<b>EQUITY</b>			
Share capital		14,379	14,379
Own (treasury) shares		-660	-660
Share premium		635	635
Statutory capital reserve		2,554	2,554
Translation reserve		2,544	1,169
Retained earnings		14,919	12,383
<b>Total equity attributable to owners of the parent</b>		<b>34,371</b>	<b>30,460</b>
<b>Non-controlling interests</b>		<b>3,673</b>	<b>2,313</b>
<b>TOTAL EQUITY</b>		<b>38,044</b>	<b>32,773</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>147,579</b>	<b>117,648</b>



## Consolidated statement of comprehensive income

EUR '000	Note	9M 2020	Q3 2020	9M 2019	Q3 2019	2019
Revenue	8, 9	217,664	80,866	172,237	71,796	234,071
Cost of sales	10	-208,149	-77,358	-164,516	-67,369	-222,302
<b>Gross profit</b>		<b>9,515</b>	<b>3,508</b>	<b>7,721</b>	<b>4,427</b>	<b>11,769</b>
Marketing and distribution expenses		-386	-184	-635	-137	-784
Administrative expenses	11	-5,312	-1,452	-4,668	-1,620	-6,837
Other operating income	12	273	95	128	61	315
Other operating expenses	12	-138	-28	-48	-28	-193
<b>Operating profit</b>		<b>3,952</b>	<b>1,939</b>	<b>2,498</b>	<b>2,703</b>	<b>4,270</b>
Finance income	13	270	21	1,215	720	1,277
Finance costs	13	-2,102	-861	-1,006	-343	-1,219
<b>Net finance costs/income</b>		<b>-1,832</b>	<b>-840</b>	<b>209</b>	<b>377</b>	<b>-58</b>
Share of profit of equity-accounted investees		966	487	622	370	585
<b>Profit before income tax</b>		<b>3,086</b>	<b>1,586</b>	<b>3,329</b>	<b>3,450</b>	<b>4,913</b>
Income tax expense		-82	0	-453	0	-764
<b>Profit for the period</b>		<b>3,004</b>	<b>1,586</b>	<b>2,876</b>	<b>3,450</b>	<b>4,149</b>
<b>Other comprehensive income:</b>						
<b>Items that may be reclassified subsequently to profit or loss</b>						
Exchange differences on translating foreign operations		1,375	557	-777	-514	-823
<b>Total other comprehensive income/expense</b>		<b>1,375</b>	<b>557</b>	<b>-777</b>	<b>-514</b>	<b>-823</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,379</b>	<b>2,143</b>	<b>2,099</b>	<b>2,936</b>	<b>3,326</b>
<b>Profit attributable to:</b>						
- Owners of the parent		1,040	1,197	2,532	3,325	3,378
- Non-controlling interests		1,964	389	344	125	771
<b>Profit for the period</b>		<b>3,004</b>	<b>1,586</b>	<b>2,876</b>	<b>3,450</b>	<b>4,149</b>
<b>Total comprehensive income attributable to:</b>						
- Owners of the parent		2,415	1,754	1,755	2,811	2,555
- Non-controlling interests		1,964	389	344	125	771
<b>Total comprehensive income for the period</b>		<b>4,379</b>	<b>2,143</b>	<b>2,099</b>	<b>2,936</b>	<b>3,326</b>
<b>Earnings per share attributable to owners of the parent:</b>						
Basic earnings per share (EUR)	7	0.03	0.04	0.08	0.10	0.11
Diluted earnings per share (EUR)	7	0.03	0.04	0.08	0.10	0.11





## Consolidated statement of cash flows

EUR '000	Note	9M 2020	9M 2019
<b>Cash flows from operating activities</b>			
Cash receipts from customers <sup>1</sup>		267,488	193,567
Cash paid to suppliers <sup>2</sup>		-238,592	-165,291
VAT paid		-8,245	-4,606
Cash paid to and for employees		-20,849	-17,332
Income tax paid		-81	-149
<b>Net cash used in/from operating activities</b>		<b>-279</b>	<b>6,189</b>
<b>Cash flows from investing activities</b>			
Paid on acquisition of property, plant and equipment		-184	-216
Proceeds from sale of property, plant and equipment	4	246	215
Acquisition of intangible assets		-2	0
Acquisition of a subsidiary		-2	0
Cash received on acquisition of a subsidiary		3,605	0
Loans provided		-17	-14
Repayment of loans provided		43	9
Dividends received		251	489
Interest received		8	6
<b>Net cash from investing activities</b>		<b>3,948</b>	<b>489</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		2,333	3,036
Repayment of loans received		-1,949	-3,245
Lease payments made	6	-2,167	-2,400
Interest paid		-790	-744
Dividends paid		-472	-2,360
<b>Net cash used in financing activities</b>		<b>-3,045</b>	<b>-5,713</b>
<b>Net cash flow</b>		<b>624</b>	<b>965</b>
<b>Cash and cash equivalents at beginning of period</b>			
Effect of movements in foreign exchange rates		-16	-13
Increase in cash and cash equivalents		624	965
<b>Cash and cash equivalents at end of period</b>		<b>7,640</b>	<b>8,630</b>

<sup>1</sup> Line item *Cash receipts from customers* includes VAT paid by customers.

<sup>2</sup> Line item *Cash paid to suppliers* includes VAT paid.



## Consolidated statement of changes in equity

EUR '000	Equity attributable to owners of the parent							Non-controlling interests	Total
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total		
<b>Balance at 31 December 2018</b>	<b>16,321</b>	<b>-693</b>	<b>2,554</b>	<b>618</b>	<b>1,992</b>	<b>10,896</b>	<b>31,688</b>	<b>2,021</b>	<b>33,709</b>
Profit for the period	0	0	0	0	0	2,532	2,532	344	2,876
Other comprehensive expense	0	0	0	0	-777	0	-777	0	-777
<b>Transactions with owners</b>									
Dividend distribution	0	0	0	0	0	-1,891	-1,891	-479	-2,370
Reduction of share capital	-1,942	33	0	17	0	0	-1,892	0	-1,892
<b>Total transactions with owners</b>	<b>-1,942</b>	<b>33</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>-1,891</b>	<b>-3,783</b>	<b>-479</b>	<b>-4,262</b>
<b>Balance at 30 September 2019</b>	<b>14,379</b>	<b>-660</b>	<b>2,554</b>	<b>635</b>	<b>1,215</b>	<b>11,537</b>	<b>29,660</b>	<b>1,886</b>	<b>31,546</b>
<b>Balance at 31 December 2019</b>	<b>14,379</b>	<b>-660</b>	<b>2,554</b>	<b>635</b>	<b>1,169</b>	<b>12,383</b>	<b>30,460</b>	<b>2,313</b>	<b>32,773</b>
Profit for the period	0	0	0	0	0	1,040	1,040	1,964	3,004
Other comprehensive income	0	0	0	0	1,375	0	1,375	0	1,375
Changes in non-controlling interests	0	0	0	0	0	1,496	1,496	-604	815
<b>Balance at 30 September 2020</b>	<b>14,379</b>	<b>-660</b>	<b>2,554</b>	<b>635</b>	<b>2,544</b>	<b>14,919</b>	<b>34,371</b>	<b>3,673</b>	<b>38,044</b>



## 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 Toompuiestee 35, 10149 Tallinn, Estonia. Nordecon AS's majority shareholder and the party controlling Nordecon Group is AS Nordic Contractors that holds 54.08% 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 September 2020 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 2019.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the third quarter and first nine months of 2020 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.

### NOTE 2. Trade and other receivables

EUR '000	Note	30 September 2020	31 December 2019
<b>Current items</b>			
Trade receivables		38,006	29,141
Retentions receivable		1,106	763
Receivables from related parties	14	500	739
Other receivables		87	46
<b>Total receivables</b>		<b>39,699</b>	<b>30,689</b>
Due from customers for contract work		21,833	6,874
<b>Total current trade and other receivables</b>		<b>61,532</b>	<b>37,563</b>

EUR '000	Note	30 September 2020	31 December 2019
<b>Non-current items</b>			
Loans to related parties	14	8,196	8,015
Other non-current receivables		419	420
<b>Total non-current trade and other receivables</b>		<b>8,615</b>	<b>8,435</b>

### NOTE 3. Inventories

EUR '000	30 September 2020	31 December 2019
Raw materials and consumables	3,715	3,149
Work in progress	6,719	6,964
Apartments for sale	230	230
Properties purchased for development and pre-development costs	13,416	10,799
<b>Total inventories</b>	<b>24,080</b>	<b>21,142</b>



## NOTE 4. Property, plant and equipment and intangible assets

### Property, plant and equipment

In the first nine months of 2020, additions to property, plant and equipment totalled 1,678 thousand euros (9M 2019: 1,543 thousand euros) and comprised equipment and construction machinery required for the Group's business.

Proceeds from sales of property, plant and equipment amounted to 246 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 102 thousand euros (note 12). In the comparative period, proceeds from sales of property, plant and equipment amounted to 215 thousand euros and sales gain on the transactions amounted to 101 thousand euros.

### Intangible assets

There were no significant transactions with intangible assets in the first nine months of 2020.

## NOTE 5. Borrowings

### Current borrowings

EUR '000	Note	30 September 2020	31 December 2019
Short-term portion of long-term loans		9,140	3
Lease liabilities	6	3,300	2,670
Short-term bank loans		6,756	8,385
<b>Total current borrowings</b>		<b>19,196</b>	<b>11,058</b>

### Non-current borrowings

EUR '000	Note	30 September 2020	31 December 2019
Long-term portion of long-term bank loans		1,295	8,418
Derivative financial instruments		4	6
Lease liabilities	6	6,888	7,902
<b>Total non-current borrowings</b>		<b>8,187</b>	<b>16,326</b>

## NOTE 6. Leases

### Lease liabilities

EUR '000	30 September 2020	31 December 2019
<b>Lease liabilities at end of period, of which</b>	<b>10,188</b>	<b>10,572</b>
Not later than 1 year	3,300	2,670
Later than 1 year and not later than 5 years	6,888	7,902
Base currency EUR	4,722	10,572
Interest rate for contracts denominated in EUR <sup>1</sup>	2.0%-4.0%	2.0%-4.0%
Frequency of payments	Monthly	Monthly

<sup>1</sup> Includes leases with floating interest rates

### Lease payments

EUR '000	9M 2020	9M 2019
Principal payments made during the period	2,167	2,400
Interest payments made during the period	255	177



Short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of twelve months or less.

## 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 average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

EUR '000	9M 2020	9M 2019
Profit for the period attributable to owners of the parent (EUR '000)	1,040	2,532
Weighted average number of shares (in thousands)	31,521	31,521
Basic earnings per share (EUR)	0.03	0.08
Diluted earnings per share (EUR)	0.03	0.08

At the reporting date, Nordecon AS had no dilutive share options. Therefore, diluted earnings per share equal basic earnings per share.

## NOTE 8. Segment reporting – operating segments

The Group's chief operating decision maker is the board of the parent company Nordecon AS. This group of persons 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
- Infrastructure

Reportable operating segments are engaged in the provision of construction services in the buildings and infrastructure segments.

### 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 utilisation of the resources allocated to it through the segment's profit. The profit of an operating segment is its gross profit, which does not include 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.



## Third quarter

<b>EUR '000</b> <b>Q3 2020</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Total</b>
Total revenue	56,832	24,427	81,259
Of which: General contracting services	52,781	22,569	75,350
Subcontracting services	3,950	525	4,475
Own development activities	101	0	101
Road maintenance services	0	800	800
Rental services	0	533	533
Inter-segment revenue	0	-508	-508
<b>Revenue from external customers</b>	<b>56,832</b>	<b>23,919</b>	<b>80,751</b>
<b>Gross profit of the segment</b>	<b>2,247</b>	<b>1,400</b>	<b>3,647</b>

<b>EUR '000</b> <b>Q3 2019</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Total</b>
Total revenue	46,760	24,979	71,739
Of which: General contracting services	40,507	22,845	63,352
Subcontracting services	3,657	1,095	4,752
Own development activities	2,596	0	2,596
Road maintenance services	0	627	627
Rental services	0	358	358
Inter-segment revenue	0	-54	-54
<b>Revenue from external customers</b>	<b>46,760</b>	<b>24,925</b>	<b>71,685</b>
<b>Gross profit of the segment</b>	<b>2,399</b>	<b>2,295</b>	<b>4,694</b>

## Nine months

<b>EUR '000</b> <b>9M 2020</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Total</b>
Total revenue	169,439	48,601	218,040
Of which: General contracting services	155,402	43,486	198,888
Subcontracting services	10,232	1,098	11,330
Own development activities	2,455	0	2,455
Road maintenance services	0	2,839	2,839
Rental services	0	1,178	1,178
Sale of a property	1,350	0	1,350
Inter-segment revenue	0	-576	-576
<b>Revenue from external customers</b>	<b>169,439</b>	<b>48,025</b>	<b>217,464</b>
<b>Gross profit of the segment</b>	<b>7,908</b>	<b>2,221</b>	<b>10,129</b>

<b>EUR '000</b> <b>9M 2019</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Total</b>
Total revenue	122,831	49,241	172,072
Of which: General contracting services	108,755	40,138	148,893
Subcontracting services	7,682	5,646	13,328
Own development activities	6,388	0	6,388
Road maintenance services	0	2,550	2,550
Rental services	0	804	804
Inter-segment revenue	-6	-103	-109
<b>Revenue from external customers</b>	<b>122,825</b>	<b>49,138</b>	<b>171,963</b>
<b>Gross profit of the segment</b>	<b>6,582</b>	<b>1,945</b>	<b>8,527</b>



## Reconciliation of segment revenues

EUR '000	9M 2020	Q3 2020	9M 2019	Q3 2019
Total revenues for reportable segments	218,040	81,259	172,072	71,739
Elimination of inter-segment revenues	-576	-508	-109	-54
Other revenue	200	115	274	111
<b>Total revenue</b>	<b>217,664</b>	<b>80,866</b>	<b>172,237</b>	<b>71,796</b>

## Reconciliation of segment profit

EUR '000	9M 2020	Q3 2020	9M 2019	Q3 2019
Total profit for reportable segments	10,129	3,647	8,527	4,694
Unallocated loss	-614	-139	-806	-267
<b>Gross profit</b>	<b>9,515</b>	<b>3,508</b>	<b>7,721</b>	<b>4,427</b>
Unallocated expenses:				
Marketing and distribution expenses	-386	-184	-635	-137
Administrative expenses	-5,312	-1,452	-4,668	-1,620
Other operating income and expenses	135	67	80	33
<b>Operating profit</b>	<b>3,952</b>	<b>1,939</b>	<b>2,498</b>	<b>2,703</b>
Finance income	270	21	1,215	720
Finance costs	-2,102	-861	-1,006	-343
Share of profit of equity-accounted investees	966	487	622	370
<b>Profit before tax</b>	<b>3,086</b>	<b>1,586</b>	<b>3,329</b>	<b>3,450</b>

## NOTE 9. Segment reporting – geographical information

EUR '000	9M 2020	Q3 2020	9M 2019	Q3 2019
Estonia	191,049	70,453	159,573	66,551
Ukraine	2,512	1,377	3,312	562
Finland	10,232	3,951	7,683	3,658
Sweden	13,871	5,085	4,758	2,583
Elimination of inter-segment revenues	0	0	-3,089	-1,558
<b>Total revenue</b>	<b>217,664</b>	<b>80,866</b>	<b>172,237</b>	<b>71,796</b>

## NOTE 10. Cost of sales

EUR '000	9M 2020	9M 2019
Cost of materials, goods and services	189,346	147,012
Personnel expenses	16,502	15,259
Depreciation expense	1,909	2,053
Other expenses	392	192
<b>Total cost of sales</b>	<b>208,149</b>	<b>164,516</b>

## NOTE 11. Administrative expenses

EUR '000	9M 2020	9M 2019
Personnel expenses	2,917	2,450
Cost of materials, goods and services	1,609	1,910
Depreciation and amortisation expense	651	181
Other expenses	135	127
<b>Total administrative expenses</b>	<b>5,312</b>	<b>4,668</b>



## NOTE 12. Other operating income and expenses

EUR '000	9M 2020	9M 2019
<b>Other operating income</b>		
Gain on a bargain purchase	139	0
Gain on sale of property, plant and equipment	102	101
Other income	32	27
<b>Total other operating income</b>	<b>273</b>	<b>128</b>

EUR '000	9M 2020	9M 2019
<b>Other operating expenses</b>		
Foreign exchange loss	0	10
Loss on write-off of property, plant and equipment	7	0
Net loss on impairment losses and reversals of impairment losses on receivables	64	10
Other expenses	67	28
<b>Total other operating expenses</b>	<b>138</b>	<b>48</b>

## NOTE 13. Finance income and costs

EUR '000	9M 2020	9M 2019
<b>Finance income</b>		
Interest income on loans	168	175
Foreign exchange gain	84	1,040
Other finance income	18	0
<b>Total finance income</b>	<b>270</b>	<b>1,215</b>

EUR '000	9M 2020	9M 2019
<b>Finance costs</b>		
Interest expense	792	738
Foreign exchange loss	1,255	258
Other finance costs	55	10
<b>Total finance costs</b>	<b>2,102</b>	<b>1,006</b>

## NOTE 14. Transactions with related parties

The Group considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions (assumes holding more than 20% 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 Counterparty	9M 2020		9M 2019	
	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	196	0	216	0
Companies of AS Nordic Contractors group	2,111	7	15	7
Companies related to owners of AS Nordic Contractors	86	0	369	0
Equity-accounted investees	1,140	1,368	2,457	17
Companies related to members of the council	88	0	67	0
<b>Total</b>	<b>3,621</b>	<b>1,375</b>	<b>3,124</b>	<b>24</b>

EUR '000 Nature of transactions	9M 2020		9M 2019	
	Purchases	Sales	Purchases	Sales
Construction services	1,140	0	2,457	0
Transactions with goods	86	0	369	0
Lease and other services	307	315	231	24
Other transactions	2,088	1,350	67	0
<b>Total</b>	<b>3,621</b>	<b>1,375</b>	<b>3,124</b>	<b>24</b>

During the period, the Group recognised interest income on loans to associates of 163 thousand euros (9M 2019: 162 thousand euros).

### Receivables from and liabilities to related parties at period-end

EUR '000	30 September 2020		31 December 2019	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	15	0	10
Companies of AS Nordic Contractors group – receivables	496	1,211	495	660
Companies related to owners of AS Nordic Contractors	0	49	0	316
Associates – receivables and liabilities	4	473	244	1
Associate – loans and interest	8,196	0	8,015	0
<b>Total</b>	<b>8,696</b>	<b>1,748</b>	<b>8,754</b>	<b>987</b>

### Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for the first nine months of 2020 amounted to 135 thousand euros and associated social security charges totalled 45 thousand euros (9M 2019: 140 thousand euros and 46 thousand euros, respectively).

The service fees of the members of the board of Nordecon AS for the first nine months of 2020 amounted to 357 thousand euros and associated social security charges totalled 118 thousand euros (9M 2019: 356 thousand euros and 117 thousand euros, respectively).

## NOTE 15. Events after the reporting period

### Merger of Eston Ehitus AS with Nordecon AS

Nordecon AS and its wholly-owned subsidiary Eston Ehitus AS signed a merger agreement on 2 September 2020. The purpose of the transaction was to improve the Group's internal efficiency and to streamline the Group's structure. Consistent with the merger agreement, the acquirer was Nordecon AS that became the legal successor to Eston Ehitus AS which was dissolved. The merger was finalised on 15 October 2020.



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## Statements and signatures

### Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the third quarter and first nine months of 2020 and confirms that:

- the policies applied in 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

5 November 2020

Priit Luman

Member of the Board

5 November 2020

Maret Tambek

Member of the Board

5 November 2020