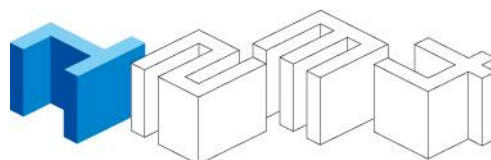




**Financial report for the
first quarter of 2019**
(unaudited)





Financial report for the first quarter of 2019
(unaudited)

Business name	Nordecon AS
Registry number	10099962
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Domicile	Republic of Estonia
Telephone	+ 372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2019 – 31 December 2019
Reporting period	1 January 2019 – 31 March 2019
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 various 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 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 at least 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.

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2019, public investments that have a strong impact on the construction market will not increase considerably compared to 2018. In terms of the market as a whole, investments made by the largest public sector customers (the state-owned real estate company Riigi Kinnisvara AS, the National Road Administration, the Centre for Defence Investment, etc.) that will reach signature of a construction contract in 2019 will not grow substantially. There are no signs of significant year-on-year growth in the volume of orders placed by the private sector either. Thus, it is expected that after two years of rapid growth the Estonian construction market will start cooling down.
- Competition remains stiff across the construction market, intensifying in different segments in line with market developments. A continuously high number of bidders for construction contracts reflects this. It is clear that in an environment of continuously rising input prices, which has emerged in recent years, companies that can operate more efficiently and invest more in the pre-construction phase, particularly design, are more successful.
- In developing new residential real estate, 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. A certain market saturation and credit institutions' more limited financing of buyers will lengthen the sale of real estate. In particular, this will affect more expensive housing. While the market in Tallinn is becoming saturated, Estonia's other significant housing market in Tartu has sufficient development potential.
- There is a growing contrast between the stringent terms of public contracts, which impose an increasing number of obligations, strict sanctions, different financial guarantee commitments, long settlement terms, 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 subsequent warranty periods.
- The prices of construction inputs will continue to rise at a moderate pace, driven by growth in labour costs. General contractors have been trying to absorb the cost increase by making margin concessions but those measures are practically exhausted. The construction market includes a growing number of areas where changes in the environment (e.g. materials producers' rapid and successful entry into foreign markets) may trigger a sharp price increase.
- Growth in construction prices has created a situation where the prices proposed by bidders exceed public customers' planned budgetary resources or do not fit private customers' business plans. As a result, construction work procurements are either cancelled or the processes extend beyond the initial deadlines.
- 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 who in turn have started moving to Estonia are not able to fill the gap. The above factors sustain pressure for a wage increase, particularly in the category of the younger and less experienced workforce whose natural mobility and willingness to change jobs is 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 increased in recent years. Hard times have reduced the number of inefficient (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability. In 2019, we will continue our business operations in the Kiev region in Ukraine. We expect that in 2019 the Group's business volumes in Ukraine will remain at a level comparable to 2018. 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 for exiting our two real estate projects, which have been put on hold, or signing a construction contract with a prospective new owner.



At the end of 2018, the Group increased its interest in Technopolis-2 TOV from 50% to 100%. The entity owns one of the above real estate projects. Sole ownership provides an opportunity to realise the project more flexibly.

Finland

In Finland, we have mainly been providing subcontracting services in the concrete work segment but, based on experience gained over the years, 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. However, our policy is to maintain a rational approach and avoid taking excessive risks. As expected, Finland's economic growth has also had a positive impact on the construction sector. According to forecasts, in 2019 the construction sector will continue to expand.

Sweden

We have been operating in Sweden since 2015. 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. As regards our longer-term goal and the plan to build a viable and strong organization that would compete successfully in the Swedish market, we are positive about the developments so far and see potential for further growth and ensuring profitability in a large market when we have been able to stabilise our order book growth at the desired level. The decline in real estate prices that took place in 2018 has reduced the demand for housing construction. Therefore, the starting dates of many projects are being postponed. According to forecasts, in the next few years housing construction in Sweden will decrease compared to the peak level of 2017. However, the construction market will be positively influenced by sustained growth in investments made by the government and high demand for office space in large cities.

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. Demand for construction services continues to be strongly influenced by the volume of public investment. This, in turn, depends in part on the co-financing received from the EU structural funds.

Competition continues to be stiff in all segments of the construction market. However, bidders' prices are under strong competitive pressure in a situation where the prices of construction inputs have been consistently rising, driven by growth in labour costs. 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 qualification requirements of public procurements low, which sometimes results in sacrificing quality and adherence to deadlines to the lowest price. We acknowledge the risks involved in the performance of contracts signed in an environment of stiff competition and continuously 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.

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 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 the chapter Performance by business line). Where possible, our entities implement different technical solutions that also allow working 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 31 March 2019, the Group's warranty provisions (including current and non-current ones) totalled 901 thousand euros (31 March 2018: 1,011 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 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.

Financial risks

Credit risk

The Group did not incur any credit losses in the reporting or the comparative period. 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 0.97-fold (31 March 2018: 1.01-fold). 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, at the reporting date the Group's loan to its Ukrainian associate of 7,843 thousand euros was classified as a non-current asset.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. At 31 March 2019, the Group's short-term borrowings totalled 17,318 thousand euros (31 March 2018: 17,470 thousand euros).

At the reporting date, the Group's cash and cash equivalents totalled 5,391 thousand euros (31 March 2018: 4,995 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 increased by 3,210 thousand euros. The rise is attributable to a change in lease accounting policies implemented at the beginning of 2019 (IFRS 16 *Leases*), which brought operating lease liabilities that previously were accounted for off the statement of financial position on the statement of financial position where they are reported within borrowings (see also note 1 *Significant accounting policies* and *Liquidity risk*). At 31 March 2019, interest-bearing borrowings totalled 28,521 thousand euros (31 March 2018: 25,311 thousand euros). Interest expense for the first quarter of 2019 amounted to 200 thousand euros (Q1 2018: 174 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 cause significant growth 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 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. In the first quarter of 2019, the hryvnia strengthened against the euro by around 3.6%. As a result, the Group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange gain of 215 thousand euros (Q1 2018: 62 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 that are related to the construction business and denominated in hryvnias do not give rise to any exchange gains or losses. Nor does the loan provided to the Ukrainian associate in euros give rise to any exchange gains or losses in the Group's financial statements.

In the first quarter of 2019, the Swedish krona weakened against the euro by around 1.7%. Due to the change in the krona/euro exchange rate, the translation of operating receivables and payables resulted in an exchange loss of 1 thousand euros (Q1 2018: 74 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 163 thousand euros (Q1 2018: 123 thousand euros). The exchange loss has been recognised in *Finance costs*.

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 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. We also depend extensively on our subcontractors' ability to ensure the availability of personnel with the required skills and qualifications.

To successfully overcome the challenges of management and meet our customers' expectations regarding professional competence, it is important to continuously develop our people. We invest in improving the leadership and management competencies of our key personnel and the professional skills of our employees by providing training and ensuring that they have the appropriate professional qualifications.

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's operations meet the requirements of international occupational health and safety management standard OHSAS 18001. Subcontractors must ensure that their employees follow all applicable work safety requirements; our 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 used for the extraction of construction materials and road construction sites. We protect the environment on our construction sites by using materials efficiently and handling and managing waste properly. To prevent excessive waste, leaks, spills, pollution, destruction of wildlife and other damage to the environment, we comply with legal requirements. All our construction entities have implemented environmental management standard ISO 14001.

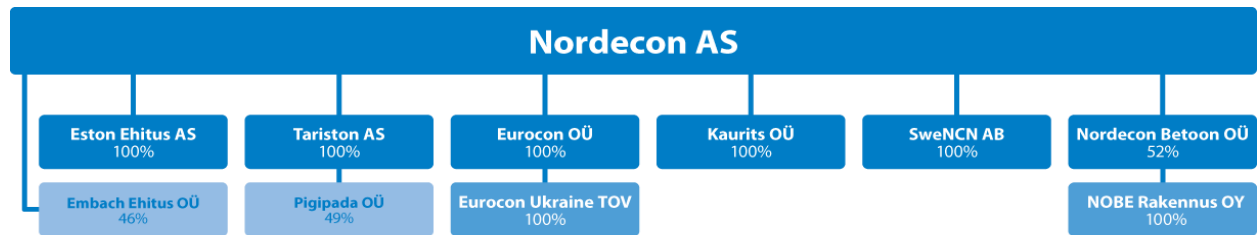
Corruption and ethical risks

As one of the leading construction companies in Estonia, we realise that it is important to be aware of the risks involved in breaching honest and ethical business practices and to make sure that our entities' management quality, organizational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour. Transparent decisions and communication are based on effective cooperation in Group units and entities and our communication with external partners as well as the implementation of IT solutions that increase openness. We have established relevant internal procedures and regulations, observe the rules of the Tallinn Stock Exchange and cooperate with external and internal auditors as well as supervisory agencies.



Group structure

The Group's structure at 31 March 2019, 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, 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%.

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 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.

Foreign markets

Ukraine

There were no changes in our Ukrainian operations during the period under review. In the first quarter of 2019, our business volumes remained at the same level as in the first quarter of 2018. In recent years, our business activity in Ukraine has increased but we have remained conservative about the contracts we sign. We have signed contracts only when we have been 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 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 the property held by the associate V.I. Center TOV and created mortgages on it.

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 NOBE Rakennus OY continued to provide subcontracting services in the concrete work segment in Finland.

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 continues to develop its organization 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 first quarter of 2019, revenue earned outside Estonia accounted for 10% (Q1 2018: 8%) of our total revenue.

	Q1 2019	Q1 2018	Q1 2017	2018
Estonia	90%	92%	91%	93%
Ukraine	5%	3%	1%	4%
Finland	4%	1%	2%	1%
Sweden	1%	4%	6%	2%

The share of the Group's Ukrainian revenues grew compared to the same period last year. In Ukraine, we are providing general contractor's services under two building construction contracts. The share of Swedish revenues decreased year on year. During the period, we provided services under one construction contract secured as a general contractor. Our Finnish revenues resulted from concrete works in the building construction segment.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on one market. However, conditions in some of our chosen foreign markets are also volatile and have a noticeable impact 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

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) as balanced as possible because this helps to 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.

In the first quarter of 2019, Nordecon generated revenue of 34,524 thousand euros, roughly 20.9% less than in the same period last year when revenue amounted to 43,662 thousand euros. The decline was sharper in the Buildings segment where revenue dropped by 24%. The fall in first-quarter revenue is attributable to longer than usual decision-making processes between the submission of bids and signature of contracts in public procurements carried out in the second half of 2018 and longer than expected preparatory processes of some contracts signed with private sector customers. We highlighted the matters already in our annual report for 2018. However, based on the Group's order book and known developments in our chosen markets, we expect that in 2019 the Group's business volumes will grow somewhat compared to 2018 (see *Order book*).

The limited volume of infrastructure construction projects, which is affecting the entire Estonian construction market, is also reflected in our revenue structure. In the first quarter of 2019, our Buildings and Infrastructure segments generated revenue of 28,638 thousand euros and 5,791 thousand euros respectively. In the same period last year, the corresponding figures were 37,616 thousand euros and 5,941 thousand euros (see note 8).

Operating segments*	Q1 2019	Q1 2018	Q1 2017	2018
Buildings	82%	86%	89%	72%
Infrastructure	18%	14%	11%	28%

* 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.

Sub-segment revenues

Due to the overall revenue decline, the revenues of all sub-segments decreased year on year.

Similarly to previous periods, the largest revenue source in the Buildings segment was the commercial buildings sub-segment. The period's largest projects in progress included the reconstruction and extension of the building of Terminal D in the Old City harbour, the construction of a multi-storey car park at Sepapaja 1 and the design and construction of an eight-floor accommodation building at Liimi 1B in Tallinn.

A significant share of the Group's Estonian apartment building construction projects is located in Tallinn. During the period, the largest of them were located at Lesta 10, Sammu 6 and Valge 16. Sweden, where we are delivering construction services in a housing development project and have started the design work in two new projects, continues to make a strong contribution to the sub-segment's revenue. An apartment building in phase III of the Sõjakooli project was delivered to the customer on schedule.

We continued work on our own housing development projects in Tallinn and Tartu (reported in the apartment buildings sub-segment). In Tallinn, we completed a four-floor apartment building with 21 apartments at Nõmme tee 97 (www.nommetee.ee) and began preparing for the construction of a new five-floor apartment building with 24 apartments at Võidujooksu 8c (www.voidujooksu.ee). In Tartu, we continued to build three apartment buildings with 10 apartments each at Aruküla tee (www.kaldakodu.ee). Our own housing developments did not generate revenue in the period under review (Q1 2018: 1,638 thousand euros). The delivery of apartments in the development in Nõmme tee will begin in the second quarter of 2019. In carrying out development activities, we monitor closely potential risks in the housing development market.

Based on the Group's order book, we expect that in 2019 as a whole the revenue of the public buildings sub-segment will increase compared to 2018. During the period, the sub-segment's revenue was strongly influenced by the construction of the Peetri sports and leisure centre in Rae parish and an assembly area at the Defence Forces' base at Tapa. The Estonian Academy of Security Sciences building in Tallinn was delivered to the customer on schedule.

The largest projects in the industrial and warehouse facilities sub-segment were the construction of a warehouse and office building at Kaldase tee in Maardu and the reconstruction (phase V) of the fattening unit of a pig farm of Rakvere Farmid AS (EKSEKO). Compared to earlier periods, the share of orders placed by the agricultural sector has decreased significantly, which is one of the reasons for the sub-segment's revenue decline.

Revenue breakdown in the Buildings segment	Q1 2019	Q1 2018	Q1 2017	2018
Commercial buildings	39%	38%	26%	35%
Apartment buildings	30%	25%	33%	25%
Public buildings	21%	23%	28%	25%
Industrial and warehouse facilities	10%	14%	13%	15%

We do not expect any major changes in the revenue breakdown of the Infrastructure segment in 2019. The segment will continue to be dominated by road construction and maintenance despite the fact that in the first quarter the contribution of other engineering grew. During the period, a major share of the revenue of the road construction and maintenance sub-segment resulted from construction contracts secured in 2018: the construction of roads and bridges for the Defence Forces' central training area in Kuusalu parish and different smaller-scale forest road improvement services provided to the State Forest Management Centre. We continued to render road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

We continued earthworks on the Kiili-Paldiski section of the onshore part of the Balticconnector gas pipeline that accounted for a significant share of the revenue of the other engineering sub-segment.

Revenue breakdown in the Infrastructure segment	Q1 2019	Q1 2018	Q1 2017	2018
Road construction and maintenance	65%	85%	82%	89%
Other engineering	33%	12%	10%	7%
Environmental engineering	2%	3%	8%	4%

Financial review

Financial performance

Nordecon ended the first quarter of 2019 with a gross profit of 46 thousand euros (Q1 2018: 453 thousand euros). The Group's gross margin for the first quarter was 0.1% (Q1 2018: 1%). Due to the seasonality of the construction business, first-quarter results, particularly in the Infrastructure segment, are affected by a large share of uncovered fixed costs. The Group's first-quarter gross profit was earned in the Buildings segment where the margin improved year on year, rising to 4.5% (Q1 2018: 3.3%). The loss of the Infrastructure segment grew compared to the first quarter of 2018, mainly due to unfavourable weather at the beginning of the year. The challenging weather conditions of the first two months of 2019 lowered the profitability of national road maintenance contracts: constant temperature changes and higher than average precipitation increased the cost base of all the main inputs.

The Group's administrative expenses for the first quarter of 2019 totalled 1,493 thousand euros. Compared to the same period last year, administrative expenses decreased by around 11% (Q1 2018: 1,671 thousand euros) but the ratio of administrative expenses to revenue (12 months rolling) remained at the same level as a year ago: 3.1% (Q1 2018: 3.1%).

The Group ended the first quarter of 2019 with an operating loss of 1,750 thousand euros (Q1 2018: 1,451 thousand euros). EBITDA was negative at 1,018 thousand euros (Q1 2018: negative at 944 thousand euros).

Finance income and costs of the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets. While the Ukrainian hryvnia strengthened against the euro by 3.6% and the Group recognised an exchange gain of 215 thousand euros (Q1 2018: 62 thousand euros), the Swedish krona weakened against the euro by around 1.7% and the Group recognised an exchange loss of 163 thousand euros (Q1 2018: 123 thousand euros). The period's foreign exchange gain and loss resulted from translating loans provided to the Ukrainian and Swedish subsidiaries in euros into the local currency.

The Group's net loss amounted to 1,893 thousand euros (Q1 2018: 1,883 thousand euros) of which the net loss attributable to owners of the parent, Nordecon AS, was 1,962 thousand euros (Q1 2018: 1,806 thousand euros).

Cash flows

In the first quarter of 2019, operating activities produced a net cash outflow of 3,182 thousand euros (Q1 2018: an outflow of 3,439 thousand euros). Negative operating cash flow is typical of the first quarter and stems from the cyclical nature of the construction business. Larger fixed costs and preparations made for starting more active construction operations in the second quarter, particularly in the Infrastructure segment, cause outflows to exceed inflows. Operating cash flow continues to be 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, 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. The Group has concluded a frame agreement for reverse factoring which enables our subcontractors that do not have sufficient credit standing to obtain a factoring facility from a financing institution to use our facility.

Investing activities resulted in a net cash inflow of 208 thousand euros (Q1 2018: an inflow of 182 thousand euros). The largest items were payments for the acquisition of property, plant and equipment of 43 thousand euros (Q1 2018: 66 thousand euros) and dividends received of 238 thousand euros (Q1 2018: 245 thousand euros).

Financing activities generated a net cash inflow of 692 thousand euros (Q1 2018: an outflow of 664 thousand euros). The largest items were loan, right of use and finance lease payments. Proceeds from loans received amounted to 1,737 thousand euros, consisting of development loans and overdrafts used (Q1 2018: 534 thousand euros). Loan repayments totalled 9 thousand euros (Q1 2018: 194 thousand euros) and finance lease payments amounted to 577 thousand euros (Q1 2018: 450 thousand euros). In connection with a change in lease accounting policies according to which operating lease liabilities that used to be accounted for off the statement of financial position are recognised as borrowings as from 1 January 2019, payments related to such leases are reported in cash flows from financing activities. Relevant right of use payments of the period totalled 251 thousand euros (see also note 1 *Significant accounting policies*). Interest payments of the period amounted to 208 thousand euros (Q1 2018: 170 thousand euros). Interest payments have grown in connection with the same change in accounting policies.

At 31 March 2019, the Group's cash and cash equivalents totalled 5,391 thousand euros (31 March 2018: 4,995 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio for the period	Q1 2019	Q1 2018	Q1 2017	2018
Revenue (EUR '000)	34,524	43,662	41,604	223,496
Revenue change	-20.9%	4.9%	50.0%	-3.4%
Net loss/profit (EUR '000)	-1,893	-1,883	-1,086	3,821
Net loss/profit attributable to owners of the parent (EUR '000)	-1,962	-1,806	-1,087	3,381
Average number of shares	31,528,585	30,913,031	30,756,728	31,528,585
Earnings per share (EUR)	-0.06	-0.06	-0.04	0.11
Administrative expenses to revenue	4.3%	3.8%	3.5%	3.0%
Administrative expenses to revenue (rolling)	3.1%	3.1%	3.2%	3.0%
EBITDA (EUR '000)	-1,018	-944	-503	6,021
EBITDA margin	-2.9%	-2.2%	-1.2%	2.7%
Gross margin	0.1%	1.0%	1.5%	4.5%
Operating margin	-5.1%	-3.3%	-2.4%	1.8%
Operating margin excluding gain on asset sales	-5.2%	-3.3%	-2.4%	1.3%
Net margin	-5.5%	-4.3%	-2.6%	1.7%
Return on invested capital	-2.9%	-2.6%	-1.5%	8.4%
Return on equity	-5.8%	-5.0%	-2.9%	11.2%
Equity ratio	30.2%	31.1%	35.6%	32.4%
Return on assets	-1.8%	-1.9%	-1.1%	3.5%
Gearing	38.4%	35.3%	29.3%	28.5%
Current ratio	0.97	1.01	1.01	11.2
As at	31 March 2019	31 March 2018	31 March 2017	31 Dec 2018
Order book (EUR '000)	170,509	143,589	130,109	100,352

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 / 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 31 March 2019, the Group's order book (backlog of contracts signed but not yet performed) stood at 170,509 thousand euros, an increase of roughly 18% compared to a year ago. In the first quarter of 2019, we signed new contracts of 92,556 thousand euros (Q1 2018: 22,275 thousand euros).

	31 March 2019	31 March 2018	31 March 2017	31 Dec 2018
Order book (EUR '000)	170,509	143,589	130,109	100,352

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 86% and 14% of the Group's total order book respectively (31 March 2018: 68% and 32% respectively). Compared to 31 March 2018, the order book of the Buildings segment has increased by 50% and the order book of the Infrastructure segment has decreased by 49%.

The order books of the commercial buildings, public buildings and apartment buildings sub-segments account for an equal share, approximately a third each, of the order book of the Buildings segment. The order books of those sub-segments have grown significantly compared to the same period last year. In the commercial buildings sub-segment, the largest projects in progress are in Tallinn: the reconstruction and extension of the building of Terminal D in the Old City Harbour and the construction of an office complex consisting of a three- and a five-floor building on the corner of Suur-Patarei and Jahu streets, a multi-storey car park at Sepapaja 1 and a new seven-floor commercial building in Rotermann City. In addition, we have signed a contract for the design and construction of a multi-storey car park for Tartu University Hospital in Tartu. The order book of the apartment buildings sub-segment includes contracts for the construction of apartment buildings in Tallinn, and contracts for the construction of two apartment buildings in Sweden that were signed during the reporting period. A major share of the order book of the public buildings sub-segment is made up of contracts signed at the beginning of 2019 for the construction of the Estonian Academy of Security Sciences and the University of Tartu Training Centre in Narva, a sports and health centre at Kohtla-Järve and an assembly area at the Defence Forces' base at Tapa. The order book of the industrial and warehouse facilities sub-segment has decreased substantially.

The order book of the Infrastructure segment continues to be underpinned by contracts of the road construction and maintenance sub-segment which account for around 72% of the Infrastructure segment's order book. The largest projects in the road construction order book are the construction of the Veskitammi intersection in Laagri, near Tallinn, passing lanes for a 2+1 road on the Pikknurme-Puurmani section (km 142.2-146.9) of the Tallinn-Tartu-Võru-Luhamaa road, and roads and bridges for the Defence Forces' central training area in Kuusalu parish. The Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. We also continue to provide earthwork services on the Kiili-Paldiski section of the onshore part of the Balticconnector gas pipeline.

Based on the size of the Group's order book and known developments in our chosen markets, we expect that in 2019 the Group's revenue will grow slightly compared to 2018. In an environment of exceptionally stiff competition, we avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Despite this, where suitable opportunities arise, we strive to increase the portfolio to counteract the pressure on margins that is caused by the market situation. Our preferred policy is to keep fixed costs under control and monitor market developments closely.

Between the reporting date (31 March 2019) and the date of release of this report, Group companies have secured additional construction contracts in the region of 20,552 thousand euros, a major share of which is made up of contracts of the Infrastructure segment.

People

Employees and personnel expenses

In Q1 2019, the Group (the parent and the subsidiaries) employed, on average, 662 people including 391 engineers and technical personnel (ETP). Headcount dropped by around 4% compared to the first quarter of 2018.

Average number of employees at Group entities

	Q1 2019	Q1 2018	Q1 2017	2018
ETP	391	427	413	419
Workers	271	264	303	268
Total average	662	691	716	687

The Group's personnel expenses for the first quarter of 2019, including all taxes, totalled 5,363 thousand euros. In the first quarter of 2018, personnel expenses amounted to 4,943 thousand euros. Personnel expenses grew by around 8% through a rise in wages and salaries.

The service fees of the members of the council of Nordecon AS for the first quarter of 2019 amounted to 47 thousand euros and associated social security charges totalled 15 thousand euros (Q1 2018: 47 thousand euros and 15 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 123 thousand euros and associated social security charges totalled 42 thousand euros (Q1 2018: 232 thousand euros and 77 thousand euros respectively). The figures for the first quarter of 2018 included 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:

	Q1 2019	Q1 2018	Q1 2017	2018
Nominal labour productivity (rolling), (EUR '000)	315.5	320.4	281.9	325.4
Change against the comparative period, %	-1.5%	13.7%	30.4%	3.3%
Nominal labour cost efficiency (rolling), (EUR)	9.2	10.0	9.5	9.7
Change against the comparative period, %	-8.4%	5.4%	20.7%	-3.8%

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

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

The Group's nominal labour productivity and labour cost efficiency declined compared to the first quarter of 2018 due to a decrease in revenue and growth in personnel expenses.

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.

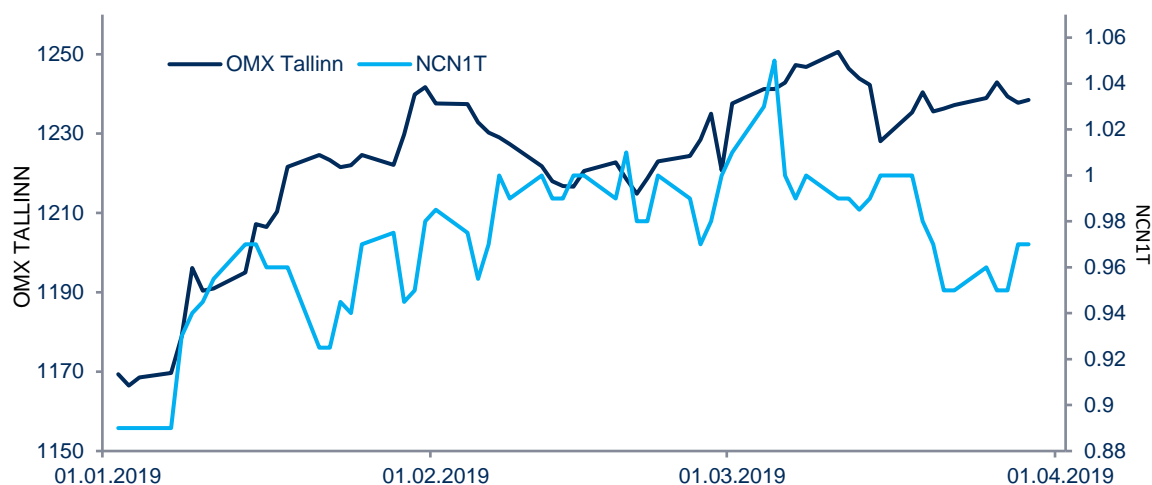
Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meeting of Nordecon AS.

Movements in the price and trading volume of the Nordecon AS share in Q1 2019

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 to the OMX Tallinn index in Q1 2019



Index/equity	1 January 2019*	31 March 2019	+/-
OMX Tallinn	1,162.86	1,238.48	6.5%
NCN1T	EUR 0.89	EUR 0.97	8.99%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2018

Summarised trading results

Share trading history (EUR)

Price	Q1 2019	Q1 2018	Q1 2017
Open	0.91	1.25	1.34
High	1.05	1.26	1.35
Low	0.89	1.18	1.26
Last closing price	0.97	1.22	1.31
Traded volume (number of securities traded)	418,206	227,978	343,515
Turnover, in EUR millions	0.41	0.28	0.45
Listed volume (31 March), in thousands	32,375	32,375	32,375
Market capitalisation (31 March), in EUR millions	31.40	39.50	42.41

Shareholder structure

Largest shareholders in Nordecon AS at 31 March 2019

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,220,022	13.03
ING Luxembourg S.A.	1,245,757	3.85
Rondam AS	1,000,000	3.09
SEB Pank AS clients	710,000	2.19
ASM Investments OÜ	519,600	1.60
Mati Kalme	500,000	1.54
State Street Bank and Trust Omnibus Account A Fund	368,656	1.14
Lembit Talpsepp	325,693	1.01
Ain Tromp	303,960	0.94

Shareholder structure of Nordecon AS at 31 March 2019

	Number of shares	Ownership interest (%)
Shareholders with interest exceeding 5%	2	64.02
Shareholders with interest from 1% to 5%	7	14.42
Shareholders with interest below 1%	1,884	18.94
Holder of own (treasury) shares	1	2.62
Total	1,894	100

Shares controlled by members of the council of Nordecon AS at 31 March 2019

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

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 March 2019

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
Ando Voogma	Member of the Board	0	0.00
Total		7,000	0.02

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 share 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 31 March 2019, 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.

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 May 2019
Priit Luman	Member of the Board		9 May 2019
Maret Tambek	Member of the Board		9 May 2019
Ando Voogma	Member of the Board		9 May 2019

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000				
As at	Note	31 March 2019	31 December 2018	
ASSETS				
Current assets				
Cash and cash equivalents		5,391	7,678	
Trade and other receivables	2	27,904	31,627	
Prepayments		1,700	1,383	
Inventories	3	23,692	20,444	
Total current assets		58,687	61,132	
Non-current assets				
Investments in equity-accounted investees		1,734	2,266	
Other investments		26	26	
Trade and other receivables	2	8,285	8,225	
Investment property		5,526	5,526	
Property, plant and equipment	4	16,164	12,288	
Intangible assets	4	14,675	14,674	
Total non-current assets		46,410	43,005	
TOTAL ASSETS		105,097	104,137	
LIABILITIES				
Current liabilities				
Borrowings	5, 6	17,318	9,374	
Trade payables		32,226	34,954	
Other payables		7,013	5,187	
Deferred income		3,650	3,932	
Provisions		529	1,013	
Total current liabilities		60,736	54,460	
Non-current liabilities				
Borrowings	5, 6	11,203	14,830	
Trade payables		98	98	
Other payables		177	71	
Provisions		1,111	969	
Total non-current liabilities		12,589	15,968	
TOTAL LIABILITIES		73,325	70,428	
EQUITY				
Share capital		16,321	16,321	
Own (treasury) shares		-693	-693	
Share premium		618	618	
Statutory capital reserve		2,554	2,554	
Translation reserve		1,948	1,992	
Retained earnings		8,934	10,896	
Total equity attributable to owners of the parent		29,682	31,688	
Non-controlling interests		2,090	2,021	
TOTAL EQUITY		31,772	33,709	
TOTAL LIABILITIES AND EQUITY		105,097	104,137	

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q1 2019	Q1 2018	2018
Revenue	8, 9	34,524	43,662	223,496
Cost of sales	10	-34,478	-43,209	-213,463
Gross profit		46	453	10,033
Marketing and distribution expenses		-346	-173	-626
Administrative expenses	11	-1,493	-1,671	-6,725
Other operating income	12	56	17	1,471
Other operating expenses	12	-13	-77	-122
Operating loss/profit		-1,750	-1,451	4,031
Finance income	13	271	135	431
Finance costs	13	-364	-304	-909
Net finance costs		-93	-169	-478
Share of loss/profit of equity-accounted investees		-50	-63	835
Loss/profit before income tax		-1,893	-1,683	4,388
Income tax expense		0	-200	-567
Loss/profit for the period		-1,893	-1,883	3,821
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		-44	68	-3
Total other comprehensive expense/income		-44	68	-3
TOTAL COMPREHENSIVE EXPENSE/ INCOME		-1,937	-1,815	3,818
Loss/profit attributable to:				
- Owners of the parent		-1,962	-1,806	3,381
- Non-controlling interests		69	-77	440
Loss/profit for the period		-1,893	-1,883	3,821
Total comprehensive expense/income attributable to:				
- Owners of the parent		-2,006	-1,738	3,378
- Non-controlling interests		69	-77	440
Total comprehensive expense/income for the period		-1,937	-1,815	3,818
Earnings per share attributable to owners of the parent:				
Basic earnings per share (EUR)	7	-0.06	-0.06	0.11
Diluted earnings per share (EUR)	7	-0.06	-0.06	0.11

Condensed consolidated interim statement of cash flows

EUR '000	Note	Q1 2019	Q1 2018
Cash flows from operating activities			
Cash receipts from customers ¹		46,964	53,004
Cash paid to suppliers ²		-43,997	-49,887
VAT paid		-846	-1,350
Cash paid to and for employees		-5,292	-5,206
Income tax paid		-11	0
Net cash used in operating activities		-3,182	-3,439
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-43	-66
Proceeds from sale of property, plant and equipment	4	18	3
Loans provided		-9	-6
Repayment of loans provided		2	3
Dividends received		238	245
Interest received		2	3
Net cash from investing activities		208	182
Cash flows from financing activities			
Proceeds from loans received		1,737	534
Repayment of loans received		-9	-194
Finance lease payments made	6	-577	-450
Payments for lease liabilities	6	-251	0
Interest paid		-208	-170
Dividends paid		0	-384
Net cash from/used in financing activities		692	-664
Net cash flow		-2,282	-3,921
Cash and cash equivalents at beginning of period		7,678	8,916
Effect of movements in foreign exchange rates		-5	0
Decrease in cash and cash equivalents		-2,282	-3,921
Cash and cash equivalents at end of period		5,391	4,995

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	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total		
Balance at 31 December 2017	18,263	-1,349	2,554	589	1,995	11,086	33,138	1,351	34,489
Loss for the period	0	0	0	0	0	-1,806	-1,806	-77	-1,883
Other comprehensive income	0	0	0	0	68	0	68	0	68
Changes in non-controlling interests	0	0	0	0	0	0	0	-384	-384
Balance at 31 March 2018	18,263	-1,349	2,554	589	2,063	9,280	31,400	890	32,290
Balance at 31 December 2018	16,321	-693	2,554	618	1,992	10,896	31,688	2,021	33,709
Loss for the period	0	0	0	0	0	-1,962	-1,962	69	-1,893
Other comprehensive expense	0	0	0	0	-44	0	-44	0	-44
Balance at 31 March 2019	16,321	-693	2,554	618	1,948	8,934	29,682	2,090	31,772

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 31 March 2019 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 2018.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the first quarter of 2019 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 2019 the Group adopted and began to apply IFRS 16 *Leases*.

IFRS 16 *Leases*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement of the lease and, if lease payments are made over time, in obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases into operating and finance leases that was provided in IAS 17 and, instead, introduces a single accounting model for lessees. Lessees are required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group adopted IFRS 16 from the beginning of 2019 and did not restate the comparative figures for 2018, as permitted under the transition provisions of the standard. On the adoption of IFRS 16, the Group recognised leases that were classified as operating leases under IAS 17 as items of property, plant and equipment and lease liabilities.

The Group leases buildings, commercial premises and cars. Most lease contracts have been signed for a fixed term (5 years on average) and, as a rule, include extension and termination options. Leases are negotiated on an individual basis and may contain different terms and conditions. Leases are recognised as right-of-use assets and lease liabilities (within borrowings) at the commencement date of the lease, i.e. at the date on which the lessor makes the underlying asset available for use by the Group. Assets and liabilities arising from a lease are measured in the statement of financial position at the present value of the lease payments. Lease payments are apportioned between payments for the principal lease liability and finance cost (interest expense). The finance cost is allocated to each period during the lease term so that it would produce a constant periodic rate of interest on the remaining balance of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life and lease term of the asset. Assets and liabilities arising from a lease are measured in the statement of financial position at the present value of the lease payments (except for exceptions).

Lease payments include the following payments made during the lease term:

- fixed lease payments, less any lease incentives receivable (payments, or reimbursements of costs, by the lessor);
- variable lease payments that are based on an index or rate (e.g. inflation, Euribor);

- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option (if the lessee is reasonably certain to exercise the option) and payments resulting from extending or terminating the lease (if the lease term reflects the lessee exercising an option to terminate the lease).

Lease payments are discounted using the interest rate implicit in the lease or, alternatively, the lessee's incremental borrowing rate. The alternative interest rate is the interest rate that the Group would have to pay to borrow the funds necessary to obtain an asset similar to the right-of-use asset.

Right-of-use assets are measured at cost, which comprises the following components:

- the present value of the lease payments;
- any initial direct costs incurred by the lessee;
- any lease payments made before the commencement date of the lease;
- costs to be incurred in removing the underlying asset (if required by the lease) or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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. In determining the lease term, management assesses how probable it is that the Group will exercise, or not exercise, an extension or termination option, considering all relevant facts and circumstances that create an economic incentive to exercise, or not exercise, an option. Periods covered by an option to extend the lease (or periods covered by an option to terminate the lease) are only included in the lease term if it is reasonably certain that the extension option will be exercised (or the termination option will not be exercised). Management reviews its assessments regarding the extension and termination options upon the occurrence of a significant event or a significant change in circumstances that affects the probability of the Group exercising an option or when there is a change in the non-cancellable period of the lease. On the adoption of the standard on 1 January 2019, the remaining lease payments were discounted at the Group's incremental borrowing rate of 2.4% on average. The Group applied the practical expedient permitted by the standard of applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group also applied the following expedients:

- operating leases with the remaining lease term of up to 12 months were classified as short-term leases from 1 January 2019;
- initial direct costs were excluded from the measurement of the right-of-use assets at the date of initial application;
- the lease term was determined by taking into account the option to extend or terminate the lease.

Effect of the changes on the consolidated statement of financial position:

EUR '000	Effect of the changes at 1 January 2019
Right-of-use assets	4,260
Short-term lease liabilities	1,061
Long-term lease liabilities	3,199

NOTE 2. Trade and other receivables

EUR '000	Note	31 March 2019	31 December 2018
Current items			
Trade receivables		19,452	21,818
Retentions receivable		291	1,085
Receivables from related parties	14	6	2
Other receivables		272	26
Total receivables		20,021	22,931
Due from customers for contract work		7,883	8,696
Total current trade and other receivables		27,904	31,627

EUR '000	Note	31 March 2019	31 December 2018
Non-current items			
Loans to related parties	14	7,843	7,780
Other non-current receivables		442	445
Total non-current trade and other receivables		8,285	8,225

NOTE 3. Inventories

EUR '000	31 March 2019	31 December 2018
Raw materials and consumables	3,908	3,560
Work in progress	8,914	6,434
Apartments for sale	707	707
Properties purchased for development and pre-development costs	10,163	9,743
Total inventories	23,692	20,444

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first three months of 2019, the Group did not conduct any significant transactions with property, plant and equipment. Additions of the period totalled 252 thousand euros (Q1 2018: 138 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 18 thousand euros (see the statement of cash flows) and associated sales gain amounted to 53 thousand euros (see note 12). In the comparative period, proceeds from the sale of property, plant and equipment amounted to 3 thousand euros and associated sales gain amounted to 3 thousand euros.

Intangible assets

In the first three months of 2019, the Group did not conduct any significant transactions with intangible assets.

NOTE 5. Borrowings

Current borrowings

EUR '000	Note	31 March 2019	31 December 2018
Short-term portion of long-term loans		8,965	634
Short-term portion of finance lease liabilities	6	1,289	1,755
Lease liabilities		856	0
Short-term bank loans		5,693	5,334
Factoring liabilities		515	1,651
Total current borrowings		17,318	9,374

Non-current borrowings

EUR '000	Note	31 March 2019	31 December 2018
Long-term portion of long-term bank loans		4,204	11,165
Derivative financial instruments		10	11
Long-term portion of finance lease liabilities	6	3,704	3,654
Lease liabilities		3,285	0
Total non-current borrowings		11,203	14,830

NOTE 6. Finance and operating leases

Finance leases

EUR '000	31 March 2019	31 December 2018
Finance lease liabilities at end of period, of which:	4,993	5,409
Not later than 1 year	1,289	1,755
Later than 1 year and not later than 5 years	3,704	3,654
Base currency EUR	4,993	5,409
Interest rate for 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	Q1 2019	Q1 2018
Principal payments made during the period	581	450
Interest payments made during the period	36	32

Lease liabilities

EUR '000	31 March 2019	31 December 2018
Lease liabilities at end of period, of which:	4,141	0
Not later than 1 year	856	0
Later than 1 year and not later than 5 years	3,285	0
Base currency EUR	4,141	0
Interest rate for contracts denominated in EUR ¹	1.8%-2.9%	-
Frequency of payments	Monthly	-

¹ Includes leases with floating interest rates

Payments for lease liabilities

EUR '000	Q1 2019	Q1 2018
Principal payments made during the period	251	0
Interest payments made during the period	23	0

Operating lease payments

EUR '000	Q1 2019	Q1 2018
Cars	8	213
Construction equipment	644	867
Premises	140	185
IT equipment	30	84
Total operating lease payments	822	1,349

On the adoption of IFRS 16 *Leases* from 1 January 2019, the Group classified the lease expenses of cars and premises of 251 thousand euros to *Payments for lease liabilities* (see note 1).

The leases that underlie the lease liabilities have terms of up to 5 years. The lease liabilities in the statement of financial position as at 31 March 2019 were recognised on the initial application of IFRS 16 on 1 January 2019. The discount rate applied was the alternative borrowing rate as at 1 January 2019. The weighted average interest rate applied on recognising the lease liability was 2.4%.

NOTE 7. Earnings per share

Basic 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. 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.

	Q1 2019	Q1 2018
Profit for the year attributable to owners of the parent (EUR '000)	-1,962	-1,806
Average number of shares (in thousands)	31,521	30,913
Basic earnings per share (EUR)	-0.06	-0.06
Diluted earnings per share (EUR)	-0.06	-0.06

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 that 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.

First quarter

EUR '000	Buildings	Infrastructure	Total
Q1 2019			
Total revenue	28,638	5,791	34,429
Of which: general contracting services	27,131	2,724	29,855
subcontracting services	1,507	1,938	3,445
own development activities	0	0	0
road maintenance services	0	1,005	1,005
rental services	0	124	124
Inter-segment revenue	0	0	0
Revenue from external customers	28,638	5,791	34,429
Gross profit/loss of the segment	1,287	-993	294



EUR '000 Q1 2018	Buildings	Infrastructure	Total
Total revenue	37,616	5,961	43,577
Of which: general contracting services	35,390	4,310	39,700
subcontracting services	588	426	1,014
own development activities	1,638	0	1,638
road maintenance services	0	1,059	1,059
rental services	0	166	166
Inter-segment revenue	0	-20	-20
Total revenue	37,616	5,941	43,557
Gross profit/loss of the segment	1,237	-684	553

Reconciliation of segment revenues

EUR '000	Q1 2019	Q1 2018
Total revenues for reportable segments	34,429	43,577
Elimination of inter-segment revenues	0	-19
Unallocated revenue	95	104
Total consolidated revenue	34,524	43,662

Reconciliation of segment profit

EUR '000	Q1 2019	Q1 2018
Total profit for reportable segments	294	553
Unallocated loss	-248	-100
Consolidated gross profit	46	453
Unallocated expenses:		
Marketing and distribution expenses	-346	-173
Administrative expenses	-1,493	-1,671
Other operating income and expenses	43	-60
Consolidated operating loss	-1,750	-1,451
Finance income	271	135
Finance costs	-364	-304
Share of loss of equity-accounted investees	-50	-63
Consolidated loss before tax	-1,893	-1,683

NOTE 9. Segment reporting – geographical information

EUR '000	Q1 2019	Q1 2018
Estonia	31,421	40,199
Ukraine	1,692	1,502
Finland	1,507	588
Sweden	462	1,558
Elimination of inter-segment revenues	-558	-185
Total revenue	34,524	43,662

NOTE 10. Cost of sales

EUR '000	Q1 2019	Q1 2018
Cost of materials, goods and services	29,165	38,674
Personnel expenses	4,579	3,969
Depreciation expense	675	487
Other expenses	59	79
Total cost of sales	34,478	43,209

NOTE 11. Administrative expenses

EUR '000	Q1 2019	Q1 2018
Personnel expenses	763	969
Cost of materials, goods and services	615	609
Depreciation and amortisation expense	57	20
Other expenses	58	73
Total administrative expenses	1,493	1,671

NOTE 12. Other operating income and expenses

EUR '000	Q1 2019	Q1 2018
Other operating income		
Gain on sale of property, plant and equipment	53	3
Other income	3	14
Total other operating income	56	17

EUR '000	Q1 2019	Q1 2018
Other operating expenses		
Foreign exchange loss	1	74
Other expenses	12	3
Total other operating expenses	13	77

NOTE 13. Finance income and costs

EUR '000	Q1 2019	Q1 2018
Finance income		
Interest income on loans	56	72
Other finance income	0	1
Foreign exchange gain	215	62
Total finance income	271	135

EUR '000	Q1 2019	Q1 2018
Finance costs		
Interest expense	200	174
Foreign exchange loss	163	123
Other finance costs	1	7
Total finance costs	364	304

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	Q1 2019		Q1 2018	
	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	71	0	66	0
Companies of AS Nordic Contractors group	1	2	1	2
Companies related to owners of AS Nordic Contractors	212	0	8	0
Equity-accounted investees	853	0	975	13
Companies related to members of the council	21	0	21	0
Total	1,158	2	1,071	15

EUR '000 Nature of transactions	Q1 2019		Q1 2018	
	Purchases	Sales	Purchases	Sales
Construction services	853	0	975	0
Transactions with goods	212	0	8	0
Lease and other services	72	2	67	15
Other transactions	21	0	21	0
Total	1,158	2	1,071	15

During the period, the Group recognised interest income on loans to an associate of 66 thousand euros (Q1 2018: 66 thousand euros).

Receivables from and liabilities to related parties at period-end

EUR '000	31 March 2019		31 December 2018	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	8	0	10
Companies of AS Nordic Contractors group	4	0	0	0
Companies related to owners of AS Nordic Contractors	0	11	0	164
Associates – receivables and liabilities	2	1,531	2	2,097
Associate – loans and interest	7,843	0	7,780	0
Total	7,849	1,550	7,782	2,271

Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for the first quarter of 2019 amounted to 47 thousand euros and associated social security charges totalled 15 thousand euros (Q1 2018: 47 thousand euros and 15 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 123 thousand euros and associated social security charges totalled 42 thousand euros (Q1 2018: 232 thousand euros and 77 thousand euros respectively). The figures for the first quarter of 2018 included 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 first quarter of 2019 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		9 May 2019
Priit Luman	Member of the Board		9 May 2019
Maret Tambek	Member of the Board		9 May 2019
Ando Voogma	Member of the Board		9 May 2019