



**Financial report for the second quarter
and six months ended 30 June 2011**
(unaudited)





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(unaudited)

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Corporate website	www.nordecon.com
Core business activities	Construction of buildings Civil engineering Specialised construction activities Architectural and engineering activities
Financial year	1 January 2011 – 31 December 2011
Reporting period	1 January 2011 – 30 June 2011
Council	Toomas Luman (chairman of the council), Alar Kroodo, Ain Tromp, Andri Hõbemägi, Tiina Möis, Meelis Milder
Board	Jaano Vink (chairman of the board), Avo Ambur, Marko Raudsik, Erkki Suurorg
Auditor	KPMG Baltics OÜ



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ABOUT THE GROUP

Founded as a construction company in 1989, Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) has grown into one of the leading construction groups in Estonia that is a strong partner in all segments of the construction market.

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

Nordecon's specialists offer the customers complete high quality solutions in the construction of commercial, industrial and public buildings as well as infrastructure – roads, landfills, external networks and port facilities. In addition, the Group is involved in the construction of concrete structures, renting out heavy construction equipment and road maintenance.

Besides Estonia, Group entities currently operate in Ukraine and Finland and, on a project basis, in Belarus.

Nordecon is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry. The Group's parent and subsidiaries are internationally certified, holding the international quality management certificate ISO 9001, the international environment management certificate ISO 14001 and the international occupational health and safety certificate OHSAS 18001.

Nordecon AS has been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

MISSION

Our mission is to offer our customers complete premier value adding construction and engineering solutions.

We add value to the company by motivating our employees and providing them with clear development opportunities and a contemporary work environment.

SHARED VALUES

Reliability

By keeping our promises and honouring our agreements we are reliable partners for our customers. We act openly and transparently. We consistently support and promote the best construction practices. We do not take risks at the expense of our customers.

Quality

We are professional builders – we apply appropriate and effective construction techniques and technologies and observe generally accepted quality standards. We provide our customers with integrated cost efficient solutions. We are environmentally aware and operate sustainably. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Innovation

We are innovative and creative engineers. We take maximum advantage of the benefits offered by information technology. We inspire our employees to grow through continuous training and balanced career opportunities.



Directors' report

Group strategy and objectives

Nordecon Group's main strategic objectives until 2013

- To complete the significant adjustments to the Group's structure and governance that were launched in 2009 in order to secure profitable and rapid growth in the rise phase of the market
- To operate in Latvia, Lithuania and Belarus on a project basis, assuming that this is profitable
- To continue buildings construction operations in Ukraine in line with the current strategy¹
- To maintain preparedness for re-launching more active operations in foreign markets (as a general contractor) as soon as the situation in the construction market has become sufficiently supportive
- To operate in the Finnish concrete works market (as a contractor) through a subsidiary in order to support development of the business line
- To become the leading construction group in Estonia that earns half of its revenue from infrastructure and the other half from buildings construction by the end of 2013

The key theme of the strategy for 2010-2013 is "To respond to market changes swiftly and flexibly and to enter the next economic growth cycle successfully"

In the board's opinion, in forthcoming years the Group will have to focus on its core business in its main market, Estonia, where Nordecon is represented in practically all construction segments and can rely on extensive local experience. In order to adapt to changes in the external environment, the Group will have to continue taking advantage of the benefits yielded by internal restructuring and streamlining, improving profitability by proactive cost management, and creating opportunities for successfully entering the growth phase of the construction market (also in the target foreign markets).

According to the board's proposal, until 2013 (inclusive) the Group will focus on achieving the above. The strategy for the next three years has to support the Group's recovery from the slump in the construction market and to prepare ground for seizing the opportunities provided by a steadier growth that is anticipated to emerge in 2012.

In the foreseeable future, we will not seek to increase revenue without applying measures that ensure profitability because this might lead to taking unjustified risks in a situation where rapidly rising input prices may have a strong impact on companies' performance in subsequent periods.

¹ In the interim report for the fourth quarter of 2010 we explained that the decision regarding the future of the Group's Ukrainian operations would be made in the first quarter of 2011. Nordecon AS has decided to continue operating in the Ukrainian market. For further information, please refer to the chapter *Changes in the Group's business operations in the first half of 2011*.



Changes in the Group's business operations in the first half of 2011

Changes in the Group's Estonian operations

There were no major changes in the Group's Estonian operations in the first half of 2011. The Group did not enter any new operating segments or exit any current segments or sub-segments.

Since the beginning of 2011, a significant proportion of the Group's core business has been conducted by the parent, Nordecon AS, which at the end of 2010 merged with its subsidiaries Nordecon Ehitus AS and Nordecon Infra AS, which were involved in buildings and infrastructure construction respectively. At the same time, Nordecon AS continues to act as a holding company for the Group's main Estonian and foreign subsidiaries (except for the Ukrainian ones).

Changes in the Group's foreign operations

Latvia

There have been no changes in the Group's Latvian operations compared with the end of 2010. The Group has currently no active construction contracts in Latvia and no subsidiaries domiciled in Latvia.

Lithuania

There have been no changes in the Group's Lithuanian operations compared with the end of 2010. The Group has no currently active construction contracts in Lithuania and the activities of the Lithuanian subsidiary Nordecon Statyba UAB have been suspended.

Belarus

There have been no changes in the Group's Belarusian operations compared with the end of 2010. The Group is completing its only active contract, the construction of a production facility for a Finnish food industry company. The project is performed through the Group's Belarusian subsidiary Eurocon Stroi IOOO. According to the Group's development strategy, Belarus is not a target foreign market and the project was undertaken to explore the market. We have decided that after the delivery of the project in 2011 the Group will exit the Belarusian market. The decision was prompted by the fact that the Belarusian business and legal environment is not yet sufficiently transparent and supportive for doing business in the construction sector.

Ukraine

We have decided that the Group will continue operating in Ukraine in 2011 and that the target is to maintain optimal preparedness for re-launching construction activities as soon as the situation in the local construction market improves. The decision to remain in Ukraine was underpinned by well-planned activities during the slump and the prospects for market recovery in the next few years.

Real estate development projects that require extensive investment (the Group has an interest in two conserved development projects) will remain suspended to minimise the risks until the situation in Ukraine becomes clearer.

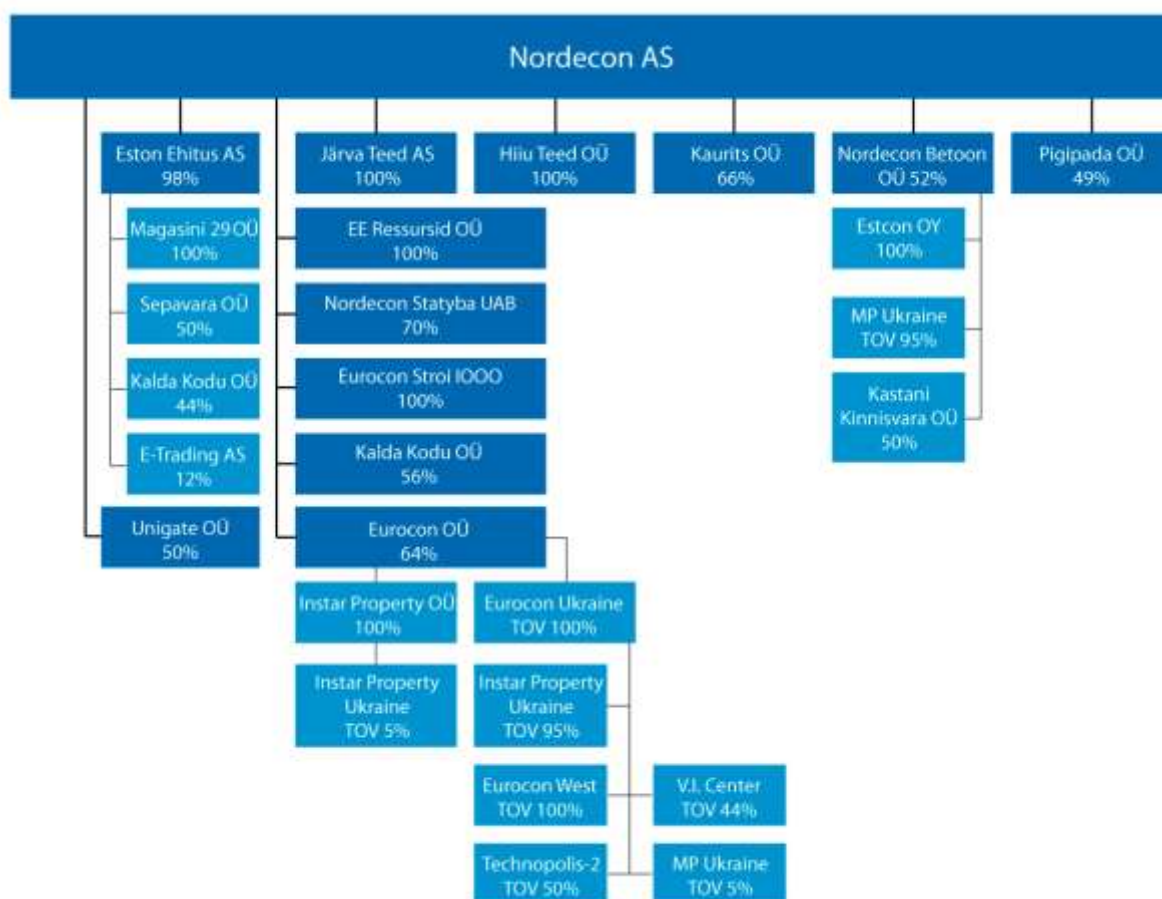
Finland

Group company Nordecon Betoön OÜ and its Finnish subsidiary Estcon Oy will continue providing subcontracting services in the concrete works sector in Finland where our strengths include top quality technical expertise, mobility and a competitive price.



The Group's structure and major structural changes

The Group's structure at 30 June 2011 including interests in subsidiaries and associates¹



¹ The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, OÜ Rendiekspert and Infra Ehitus OÜ that currently do not conduct any significant business operations. The first four were established to protect former business names.

Major changes in the Group's structure in the first half of 2011

In the first half of 2011, the Group's structure did not change compared with the end of fiscal 2010.



Financial review

Margins

Nordecon Group ended the first half of 2011 with a gross loss of 1,428 thousand euros (HY1 2010: 2,889 thousand euros). The negative figure results from changes in the operating environment that required the Group to re-estimate the outcomes of its loss-generating projects. In particular, the additional loss estimate is attributable to construction inputs whose prices have been rising in recent quarters and, to a certain extent, some unforeseen project performance costs. The bulk of it stemmed from a few contracts secured in 2009-2010 for which losses had also been recognised earlier. The Group's estimates of the losses expected to be incurred until the delivery of the contracts are based on the current best knowledge.

As regards loss-generating contracts, the strongest adverse impact was exerted by the exhibition building of the Estonian Maritime Museum that is being built inside the seaplane hangars next to the Tallinn Bay and is currently scheduled for completion at the end of 2011. It is a unique renovation project where the exceptionally poor condition of the building and the true complexity of the work have come to light only in the course of the project. The Group has accepted all losses incurred on account of its own miscalculations. However, where circumstances have arisen that could not be foreseen at the time of the procurement tender or where the customer has made changes to the initial project or has requested additional work, the Group has exercised its contractual right and demanded additional payment.

Setting aside the few loss-making contracts signed during the downturn, the profitability of the Group's core business has started improving year over year. Above all, this has been achieved thanks to the following factors:

- Since 2010, we have focused on improving the profitability, not the size of the Group's contracts portfolio.
- In 2010, a full set of stringent austerity measures was enforced across the Group.
- The Group's internal processes and operations have been effectively streamlined.

For construction companies, the year 2011 brought the news that in some segments of the construction market (e.g. road construction and water and wastewater network construction) competition has started to decrease. The main reason is not yet bankruptcy of construction companies but the fact that in recent years many companies have had to cut their personnel and support structures to an extent that is undermining their bidding capabilities compared with previous years. Furthermore, many companies are being held back by increasingly tougher financial requirements imposed by customers holding tenders and the limited availability of the guarantee facilities provided by financing institutions. A majority of construction companies have become aware that long-term construction contracts entail the risk of growth in input prices. In general, all this is exerting positive influence on the margins of new construction contracts. Although the Group's margins do not yet meet the target, management believes that the Group is moving in the right direction in restoring the profitability of its core business.

Administrative expenses for the first half-year totalled 2,142 thousand euros. Compared with the same period in 2010, the Group has cut administrative expenses by 7% and the item has become relatively stable. The ratio of administrative expenses to revenue was 3.9% (HY1 2010: 6.1%). We are pleased to report that our cost-saving measures have yielded strong results and according to management's estimates on a full-year basis the Group will be able to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

The Group's operating loss for the first half-year was 3,501 thousand euros (HY1 2010: 5,469 thousand euros).

Consolidated net loss was 3,715 thousand euros. The loss attributable to owners of the parent, Nordecon AS, was 3,652 thousand euros. The first half of 2010 ended in a net loss of 4,175 thousand euros, including non-recurring net finance income of 1,177 thousand euros earned on the sale of the Latvian subsidiary. Excluding the latter, the Group's net loss for the first half of 2010 would have been 5,352 thousand euros.



Cash flows

In the first half of 2011, the Group's operating activities resulted in a net cash inflow of 1,846 thousand euros (HY1 2010: inflow of 690 thousand euros). Operating cash flow continued to be influenced the most by cyclical fluctuations in project-related cash flows (differences between the settlement terms agreed with customers and subcontractors) and the performance of loss-making projects. Positive cash flow was supported by factoring services implemented for reducing the cyclical nature of cash flows and the prepayments received under new large contracts. The negative cash flow of unprofitable projects realises based on the actual performance of the work although their book loss has already been recognised in previous periods.

Investing activities generated a net inflow of 1,996 thousand euros (HY1 2010: inflow of 461 thousand euros). Inflows consisted mostly of principal and interest receipts for loans granted in previous periods, which totalled 1,812 thousand euros.

Financing activities resulted in a net cash outflow of 2,994 thousand euros (HY1 2010: outflow of 5,085 thousand euros). The structure of financing cash flows has remained more or less stable. The Group is settling its loan obligations faster than it is raising new debt. On the other hand, repayments have decreased in relation to the comparative period thanks to agreements reached with the banks. The renegotiation of settlement terms has not resulted in any significant changes in the Group's interest rates.

At 30 June 2011, the Group's cash and cash equivalents totalled 6,343 thousand euros (30 June 2010: 10,476 thousand euros). For information on liquidity risks, please refer to the chapter *Description of the main risks*.

Key financial figures and ratios

Figure / ratio	6M 2011	6M 2010	6M 2009	2010
Revenue (EUR'000)	54,429	37,401	78,298	99,312
Revenue growth/decrease, %	46%	-52%	58%	-36%
Net profit/loss (EUR'000)	-3,716	-4,175	329	-12,738
Profit/loss attributable to owners of the parent (EUR'000)	-3,652	-3,788	1,353	-11,811
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	-0.12	-0.12	0.04	-0.38
Average number of employees	731	797	1,187	774
Revenue per employee (EUR'000)	74	47	66	128
Personnel expenses to revenue, %	12.2%	18.6%	15.4%	14.6%
Administrative expenses to revenue, %	3.9%	6.1%	5.3%	4.9%
EBITDA ¹ (EUR'000)	-2,278	-3,718	2,628	-5,512
EBITDA margin, %	-4.2%	-9.9%	3.4%	-5.6%
Gross margin, %	-2.6%	-7.7%	6.9%	-0.7%
Operating margin, %	-6.4%	-14.6%	0.4%	-9.0%
Operating margin excluding gains on asset sales, %	-6.8%	-14.6%	0.3%	-9.4%
Net margin, %	-6.8%	-11.2%	0.4%	-12.8%
Return on invested capital, %	-5.0%	-5.0%	1.9%	-15.8%
Return on assets, %	-3.4%	-4.7%	0.2%	-8.3%
Return on equity, %	-11.7%	-9.6%	0.6%	-32.6%
Equity ratio, %	26.8%	38.2%	35.8%	35.1%
Gearing, %	40.8%	25.2%	31.7%	42.3%
Current ratio	1.19	1.53	1.36	1.39

	30 June 2011	30 June 2010	30 June 2009	31 Dec 2010
Order book (EUR'000)	140,234	89,440	100,214	85,607

¹ For the purpose of calculating EBITDA, non-cash items include not only depreciation and amortisation but also impairment losses on goodwill.



Revenue growth/decrease = (revenue for the reporting period/ revenue for the previous period) – 1*100	Net margin = (net profit for the period/revenue)*100
Earnings per share (EPS) = net profit attributable to equity holders of the parent / weighted average number of shares outstanding	Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100
Revenue per employee = revenue/average number of employees	Return on assets = (operating profit/the period's average total assets)*100
Personnel expenses to revenue = (personnel expenses/revenue) *100	Return on equity = (net profit for the period/ the period's average total equity)*100
Administrative expenses to revenue = (administrative expenses/ revenue)*100	Equity ratio = (total equity/ total equity and liabilities)*100
EBITDA = operating profit + depreciation and amortisation	Gearing = ((interest-bearing liabilities – cash and cash equivalents)/ (interest bearing liabilities + equity))*100
EBITDA margin = (EBITDA/revenue)*100	Current ratio = total current assets/ total current liabilities
Gross margin = (gross profit/revenue)*100	
Operating margin = (operating profit/revenue)*100	
Operating margin excluding gains on asset sales = ((operating profit - gains on sale of property, plant and equipment - gains on sale of investment properties and real estate held for sale)/revenue) *100	

Performance by geographical market

In the first half of 2011, roughly 96% of the Group's revenue was earned in Estonia. In the comparative period, foreign operations accounted for 6% of the Group's revenue.

	6M 2011	6M 2010	6M 2009	2010
Estonia	96%	94%	84%	94%
Ukraine	0%	6%	2%	2%
Lithuania	0%	0%	1%	0%
Latvia	0%	0%	13%	0%
Belarus	3%	0%	0%	3%
Finland	1%	0%	0%	1%

The greatest proportion of foreign revenue was earned from project-based construction business in Belarus, which is expected to be completed in the second half of the year. Management has decided that the Group will not seek any new projects in Belarus (see also the chapter *Changes in the Group's business operations in the first half of 2011*). Finnish revenues result from the performance of concrete works.

Revenue distribution between different geographical segments is a consciously deployed strategy by which the Group avoids excessive reliance on a single market. Although in the long term the Group's strategy foresees increasing foreign operations, in the short term the Group will focus on the Estonian market and seizing opportunities in an environment that it knows best and that entails comparatively fewer known market risks. The Group's vision of the future of its foreign operations is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

The core business of Nordecon Group is general contracting and project management in the field of buildings and infrastructure construction. The Group is involved, among other things, in the construction of commercial and industrial buildings and facilities, road construction and maintenance, environmental engineering, concrete works and real estate development.

Consolidated revenue for the first half of 2011 was 54,429 thousand euros, a 46% increase on the 37,401 thousand euros generated a year ago. Last year, the downturn that ravaged the Estonian construction market in 2008-2010 bottomed out. Revenue growth is attributable to the following factors: moderate growth in the buildings segment, decline of competition in certain market segments and successful bidding for infrastructure contracts that could also be performed during the winter season.

The Group aims to maintain the revenues of its business segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides a more solid foundation under stressed circumstances when one segment



experiences shrinkage. In view of estimated demand for apartments, in forthcoming years the proportion of revenue from the construction of apartment buildings will remain significantly below the strategic 20% ceiling.

Segment revenue

In the first half of 2011, the revenues of our two main business segments were practically equal. The Buildings and Infrastructure segments ended the first half-year with revenue of 25,704 thousand euros and 27,402 thousand euros respectively. The corresponding figures for the comparative period were 18,254 thousand euros and 18,618 thousand euros.

For a long time most tenders in the construction market have been related to infrastructure (mainly projects financed with the support of the state and the EU structural funds) and the majority (72%) of contracts in the Group's order book belong to the Infrastructure segment. Regardless of this, the revenues of the segments have been practically equal because the Group's active buildings construction contracts have a shorter term than those of infrastructure construction. Infrastructure contracts have a longer term (e.g. road maintenance contracts) and their contribution to realised revenue is therefore comparatively smaller. We expect that in the next quarters the contributions of the Buildings and Infrastructure segments will have similar proportions.

Revenue distribution between segments*

Business segments	6M 2011	6M 2010	6M 2009	2010
Buildings	46%	46%	49%	48%
Infrastructure	54%	54%	51%	52%

* In connection with the entry into force of IFRS 8 *Operating Segments*, the Group has changed segment reporting in its financial statements. In Directors' report the Ukrainian and Belarusian buildings segment and the EU buildings segment, which are disclosed separately in the financial statements, are presented as a single segment. In addition, the segment information presented in Directors' report does not include the disclosures on "other segments" that are presented in the financial statements.

In Directors' report, projects have been aggregated and allocated to business segments based on their nature (i.e. buildings or infrastructure construction). In the segment reporting presented in the financial statements, aggregation and allocation is based on the Group entities' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements the results of an entity that is primarily engaged in infrastructure construction are presented within the Infrastructure segment. In Directors' report, the revenues of such an entity are presented based on their nature. The differences between the two reports are not significant because in general Group entities specialize in specific areas except for the subsidiary Nordecon Betoon OÜ that is involved in both buildings and infrastructure construction.

Revenue distribution within segments

In the Buildings segment, most of the revenue for the first half-year resulted from the construction of public buildings. At the end of 2010, the Group won two public sector contracts that were large under the circumstances – one for the construction of the buildings of the Koidula border station and the other for the construction of the academic building of the Social Sciences Faculty of the University of Tartu. In addition, the Group continued a major project involving the reconstruction of the seaplane hangars in Tallinn into the premises of the Estonian Maritime Museum. In the industrial and warehouse facilities sub-segment most of the revenue resulted from the construction of various agricultural facilities and a food production facility that is being built in Belarus. Compared with previous periods, the contribution of the commercial buildings sub-segment has decreased considerably, primarily because of a lack of private sector customers. In the construction of apartment buildings the Group was a general contractor, not a developer.

Revenue distribution within the Buildings segment	6M 2011	6M 2010	6M 2009	2010
Commercial buildings	6%	26%	71%	37%
Industrial and warehouse facilities	38%	21%	11%	18%
Public buildings	54%	38%	16%	35%
Apartment buildings	2%	15%	1%	10%

As usual, in the Infrastructure segment most of the revenue was generated by road construction and maintenance. The contribution of the construction of water and wastewater networks where the Group has won several tenders also in 2011 was expectedly large as well. Thanks to support from the EU structural funds, this is one of the best-funded areas in Estonia. The European Union also supports the performance of various



environmental engineering projects where the Group is well represented. Revenues from hydraulic engineering that depends mostly on Estonian ports' investment policies have been negligible in the past two years.

Revenue distribution within the Infrastructure segment	6M 2011	6M 2010	6M 2009	2010
Road construction and maintenance	46%	65%	32%	62%
Specialist engineering (including hydraulic engineering)	1%	1%	17%	1%
Other engineering	38%	26%	38%	28%
Environmental engineering	16%	8%	14%	8%

Order book

At 30 June 2011, the Group's order book stood at 140,234 thousand euros, being significantly larger than at 30 June 2010 when the figure was 89,440 thousand euros. In addition to a general rise in the Group's construction volumes compared with the slump of 2010, the growth includes a substantial one-off transaction: the cost of the design and build of the Aruvalla-Kose section of E263, the Tallinn-Tartu road (approx. 39.3 million euros).

	6M 2011	6M 2010	6M 2009	2010
Order book, in thousands of euros	140,234	89,440	100,214	85,607

At 72% the Infrastructure segment continues to account for a major proportion of the Group's total order book (30 June 2010: 66%).

In a situation where the decrease in input prices has been replaced by a rise in all areas of the construction sector, the Group's management continues to focus on improving the profitability of the contract portfolio.

Between the reporting date (30 June 2011) and the date of release of this report, Group companies have been awarded additional construction contracts of approximately 14,977 thousand euros.

People

Staff and personnel expenses

At the end of the first six months of 2011, the Group (including the parent and the subsidiaries) employed, on average, 731 people including around 352 engineers and technical personnel (ETP). In the past year, the decrease in personnel has decelerated. In 2011 headcount is expected to remain stable or to grow slightly. Besides additional seasonal labour hired for the second and third quarters, the figure may be influenced by year-over-year growth in the Group's operating volumes.

Average number of the Group's employees (including the parent and its subsidiaries):

	6M 2011	6M 2010	6M 2009	2010
ETP	352	362	480	362
Workers	379	435	707	412
Total average	731	797	1,187	774

The Group's personnel expenses for the first half of 2011 including all associated taxes totalled 6,620 thousand euros, a 5% decrease compared with the 6,945 thousand euros incurred in the first half of 2010. Personnel expenses have declined on account of a decrease in the total number of staff.

In the first half of 2011, the remuneration of the members of the council of Nordecon AS including associated social security charges amounted to 50 thousand euros. The corresponding figure for the first half of 2010 was also 50 thousand euros. The remuneration of the members of the board of Nordecon AS including social security charges totalled 156 thousand euros compared with 72 thousand euros for the first half of 2010. The remuneration provided to the board has increased because in the comparative period the board had two members while the current number is four. The composition of board changed in connection with the merger of two subsidiaries and the Group's parent that took place at the end of 2010.



Members of the council and board of Nordecon AS

Council

The council has six members - two represent the controlling shareholder AS Nordic Contractors, two represent small shareholders and two are independent. All members of the council have been elected by the general meeting for a term of five years.

Toomas Luman (chairman of the council) – a representative of AS Nordic Contractors and a majority shareholder

An engineer with a diploma in industrial and civil engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas Luman is one of the founders of the Nordecon Group and has been involved in the activities of the Group as a member of the council or board for over 20 years. Besides construction companies, he has held senior positions at various other enterprises (AS Tallinna Kaubamaja, AS E-Betoonement, OÜ Vääkivi, AS Eesti Energia, etc). He is an active member of the community and has contributed to the development of the entrepreneurial environment, education and national defence. For over 15 years he has led the Estonian Chamber of Commerce and Industry. As its chairman, he was actively involved in the preparatory activities for Estonia's accession to the EU and the euro-zone. Before Estonia joined the EU, Toomas Luman was chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs) for four years. He has been awarded the Order of the White Star of the Republic of Estonia (First Class, Third Class and Fifth Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and several other state and non-profit organisations. He has also received state awards from several foreign countries.

Membership in the governing bodies of other organisations: OÜ Luman ja Pojad and its subsidiaries and associates (including the board of AS Nordic Contractors), Eesti Energia AS (council), Eesti Energia Kaevandused AS (council), Estonian Chamber of Commerce and Industry, Tallinn Yacht Club, Nõmme Private Education Foundation, Foundation for Promoting National Defence, Development Foundation of Tallinn University of Technology, Centre for Strategic Initiatives, Cultural Foundation of the President of the Republic, Alumni Association of Tallinn University of Technology.

Interests (exceeding 5%) in other companies: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors).

Alar Kroodo (vice chairman of the council) – representative of small shareholders

An industrial and civil engineering graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology), Alar Kroodo has been actively engaged in the construction business for over 30 years, mainly in southern Estonia. He was manager of the construction enterprise Tartu Ehitustrusti Ehitusvalitsus and in 1992 established AS Linnaehitus (later renamed Nordecon Ehitus AS) where he worked as chairman of the board until 2003. Since then, he has been actively involved in the control functions of the Nordecon entities (Nordecon Ehitus AS, chairman of the council 2003-2009). He is an active member of the community – he has participated in the activities of the Tartu Rotary Club and the management of the Estonian Association of Construction Entrepreneurs as well as various sports associations. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class)

Membership in the governing bodies of other organisations: AS Nordic Contractors (council), ASM Investments OÜ and its subsidiaries and associates (board/council), OÜ Tähering (board), Tartu Sports Association Kalev.

Interests (exceeding 5%) in other companies: ASM Investments OÜ and its subsidiaries and associates, OÜ Tähering.

Ain Tromp – representative of small shareholders

Ain Tromp is a building engineering graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology). Since the 1980s he has been involved in the road construction business (Harju Road Administration and road repair and construction enterprise Teede Remondi ja Ehituse Trust). Between 1990 and 2007 he was the CEO and later until 2009 chairman of the council of AS Aspi (later renamed Nordecon Infra AS). From 1997 to



2011 Ain Tromp was on the board of the Estonian Asphalt Pavement Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: the Estonian Asphalt Pavement Association (board, until April 2011)

Interests (exceeding 5%) in other companies: none

Andri Hõbemägi – representative of AS Nordic Contractors

Andri Hõbemägi is an economics graduate of Tallinn University of Technology. From 1993 to 2001 he worked for AS Hansapank (later renamed AS Swedbank). From 2001 to 2002 he was the executive manager of football club FC Flora. In 2002 he became the CFO of AS Eesti Ehitus (later renamed Nordecon AS). During his term of office the company's shares were listed on the Tallinn Stock Exchange. Currently he is chief analyst with AS Nordic Contractors, the majority shareholder of Nordecon AS. His community activities are aimed at the development of Estonian football and regional education.

Membership in the governing bodies of other organisations: AS Nordic Contractors and its subsidiaries and associates (board/council), AS FCF Lilleküla Jalgpallistaadion (council), NutriMe OÜ (board), Estonian Football Association, Pelgulinna Education Society

Interests (exceeding 5%) in other companies: none

Tiina Mõis – independent member

Tiina Mõis is a *cum laude* economics graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology). Between 1980 and 1999 she was chief accountant of various companies, the best known of them AS Hansapank (later renamed AS Swedbank) where she was also a board member from 1995 to 1998. As a member of the council, she remained involved with AS Hansapank until 2005. Currently she is the CEO of investment firm AS Genteel. In addition, she is a member of the council of many large Estonian companies. Tiina Mõis is an active member of many social and community organisations that contribute to the development of entrepreneurship, education, health and sports in Estonia. She has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: AS Genteel and its subsidiaries and associates (board/council), AS Baltika (council), AS LHV Group (council), AS LHV Pank (council), AS Martinson Trigon (council), HTB Investeeringute AS (council), Rocca al Mare Koolimaja AS (council), Rocca al Mare Kooli AS (council), Rocca al Mare School Foundation (council), Estonian Chamber of Commerce and Industry, Alumni Association of Tallinn University of Technology, Development Foundation of Tallinn University of Technology.

Interests (exceeding 5%) in other companies: AS Genteel and its subsidiaries and associates.

Meelis Milder – independent member

An economics graduate of the University of Tartu, Meelis Milder has been involved in the activities of Baltika, one of the flagship companies of the Estonian clothing industry since 1984. Currently he is chairman of the board and a major shareholder of AS Baltika, which is listed on the NASDAQ OMX Tallinn Stock Exchange, and a member of the council of AS Tallinna Kaubamaja, also listed on the NASDAQ OMX Tallinn Stock Exchange. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: AS Tallinna Kaubamaja (council), AS Baltika and its subsidiaries and associates (board/council), BMIG OÜ (board), BML Invest OÜ (board), OÜ Kodreste (board), OÜ LVM Projekt (board), OÜ Maisan (board), Estonian Chamber of Commerce and Industry.

Interests (exceeding 5%) in other companies: BMIG OÜ, BML Invest OÜ, OÜ Kodreste, OÜ LVM Projekt, OÜ Maisan.



Board

According to the articles of association, the board may have up to five members. Members of the board are elected and appointed by the council. The term of office of a member of the board is three years. From 1 January 2011 the board of Nordecon AS has had the following members:

Jaano Vink, chairman of the board

Jaano Vink is a qualified construction engineer. He joined the company in 2002 as deputy CEO, having previously worked for AS Muuga CT as development director and for AS Tallinna Sadam in various managerial capacities in the infrastructure construction department. He graduated from Tallinn University of Technology, department of Industrial and Civil Engineering, in 1993 and has studied International Business Administration at the Estonian Business School. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As chairman of the board, Jaano Vink is responsible for the overall management of the parent and Nordecon AS Group.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board/council), Estonian Association of Construction Entrepreneurs (board), Healthy Estonia Foundation (council)

Interests (exceeding 5%) in other companies: none

Avo Ambur, member of the board

Avo Ambur has been on the board of various entities of Nordecon Group including the parent since 2002, being responsible for different areas as technical director, development director and since 2009 sales director. Before joining Nordecon, he worked for AS Lemminkäinen as project manager. He graduated from Tallinn University of Technology, department of Industrial and Civil Engineering, in 1993. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As a member of the board, Avo Ambur is responsible for Nordecon AS' sales and pre-construction operations.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board)

Interests (exceeding 5%) in other companies: none

Marko Raudsik, member of the board

Marko Raudsik joined the Group as works manager in 1994. Since then he has served the Group as project manager, head of budget department and technical and sales director and has been on the board of a subsidiary since 2007. He graduated *cum laude* from Tallinn University of Technology, department of Building Technology, in 1994. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As a member of the board, Marko Raudsik is responsible for management of the buildings construction division of Nordecon AS.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board/council).

Interests (exceeding 5%) in other companies: none

Erkki Suurorg, member of the board

Erkki Suurorg joined the Group in 1999. Over the years he has served the Group as project manager and division manager and has been on the board of various entities of Nordecon Group including the parent since 2005. He is a member of the Estonian Association of Civil Engineers and holds the qualification of Chartered Civil Engineer V. He graduated from Tallinn University of Technology with a diploma in civil engineering in 1997. As a member of the board, Erkki Suurorg is responsible for management of the infrastructure division of Nordecon AS.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board/council).

Interests (exceeding 5%) in other companies: none

Information on the shares held by the members of the council and board of Nordecon AS is presented in the chapter *Share and shareholders*.



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	30,756,728
Number of listed securities	30,756,728
Listing date	18 May 2006
Market	NASDAQ OMX Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	OMX_Baltic_Benchmark_Cap_GI; OMX_Baltic_Benchmark_Cap_PI OMX_Baltic_Benchmark_GI; OMX_Baltic_Benchmark_PI; OMX_Baltic_GI OMX_Baltic_PI; OMX Tallinn_GI; OMX_Baltic_Industrials_GI; OMX_Baltic_Industrials_PI

*In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 and a resolution adopted by the annual general meeting of the shareholders of Nordecon AS in May 2011, the company's share capital has been converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares without par value. The share capital of Nordecon AS now consists of 30,756,728 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 meetings of the shareholders of Nordecon AS.

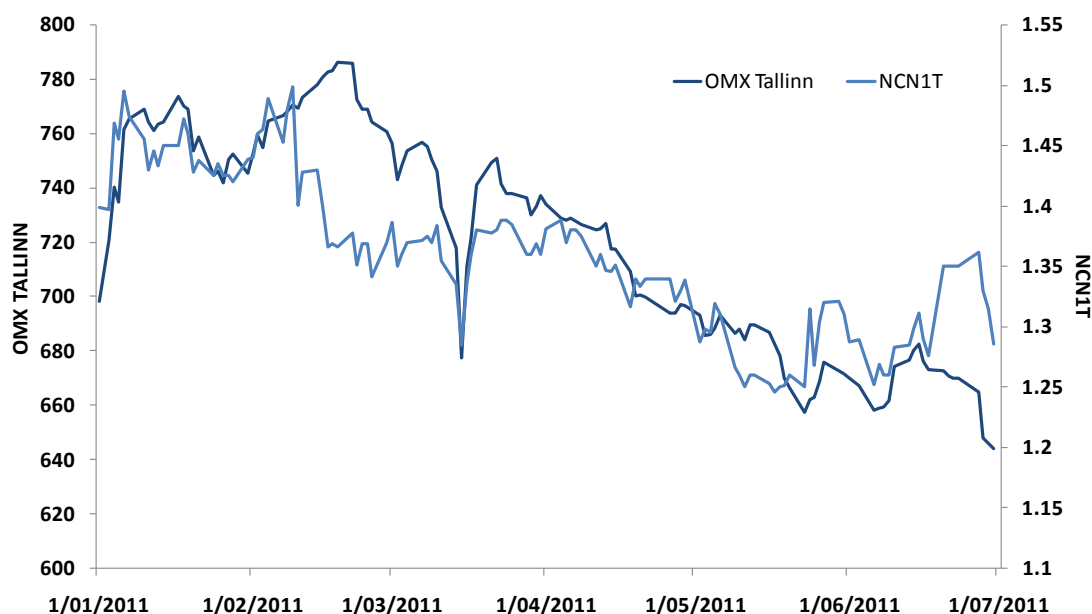
Movements in the price and turnover of the Nordecon AS share in the first half of 2011

Movements in share price in euros / daily turnover in the bar chart in thousands of euros





Movement of the share price compared with the OMX Tallinn main index in the first half of 2011



Index/equity	1 Jan2011	30 Jun 2011	+/-%
OMX Tallinn	698.38	644.09	-7.77
NCN1T	EUR 1.40	EUR 1.29	-8.08

Summarised trading results

Share trading history (EUR)

Price	6M 2011	6M 2010	6M 2009
Open	1.38	1.62	1.05
High	1.5	2.60	1.30
Low	1.22	1.34	0.55
Last closing price	1.29	1.40	0.87
Traded volume (number of securities traded)	2,264,140	3,161,382	1,875,140
Turnover, millions	3.10	6.26	1.42
Listed volume (30 June), thousands	30,757	30,757	30,757
Market capitalisation (30 June), millions	39.68	43.07	26.75

Shareholder structure

Largest shareholders of Nordecon AS at 30 June 2011

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab Clients	2,615,614	8.50
ING Luxembourg S.A.	1,111,853	3.61
State Street Bank and Trust Omnibus Account A Fund	647,964	2.11
Ain Tromp	578,960	1.88
ASM Investments OÜ	519,600	1.69
SEB Pank AS Clients	442,750	1.44
Aivo Kont	298,000	0.97
Martin Sööt	292,473	0.95
AS SEB Elu- ja pensionikindlustus	262,700	0.85



Shareholder structure of Nordecon AS by ownership interest at 30 June 2011

	Number of shares	Ownership interest (%)
Shareholders with interest exceeding 5%	2	62.18
Shareholders with interest between 1% and 5%	5	10.73
Shareholders with interest below 1%	2,207	27.09
Total	2,214	100

Shares controlled by members of the council of Nordecon AS at 30 June 2011

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad) ¹	Chairman of the Council	16,569,144	53.87
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ) ¹	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	40,000	0.13
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00

¹ Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 June 2011

Board member		Number of shares	Ownership interest (%)
Jaano Vink	Chairman of the Board	34,000	0.11
Avo Ambur	Member of the Board	32,322	0.11
Marko Raudsik	Member of the Board	0	0.00
Erkki Suurorg	Member of the Board	0	0.00

Members of the board and council of Nordecon AS and companies controlled by them have not been granted any share options under which they could acquire shares in Nordecon AS in a subsequent period.



Outlooks of the Group's geographical markets

Estonia

According to the assessment of the Group's management, in 2011 the Estonian construction market will be influenced by the following factors:

- Total demand in the construction market will remain disproportionately dependent on public procurement tenders and projects performed with the support of the EU structural funds. Project performance success is closely related to the administrative capabilities and procurement organisation skills of the central and local government which have improved compared with previous periods but are still of unreliable quality, causing hold-ups and difficulties both during the procurement proceedings and the performance of construction work.
- The contraction of the construction market ended with 2010. In the current year, the market will start picking up and construction volumes will grow somewhat. In addition to the infrastructure sector, new projects will be launched in the buildings construction sector. The latter should offer the main opportunities for growth, primarily through the return of private sector customers (including foreign investors) that abandoned the market in previous years. However, in 2011 demand is not yet expected to recover to a level where all currently operating construction companies could secure sufficient profitable business.
- Market consolidation will continue owing to the contraction in volumes in 2008-2010. In the past two years, many medium-sized and small real estate development and buildings construction companies that were unable to respond to market changes sufficiently quickly or had taken excessive real estate risks were forced to exit the market. In 2011, the number of construction companies will continue decreasing primarily because rising input prices are rendering the performance of contracts in the portfolios of companies that have survived a fall in market and construction prices too unprofitable for those that have not noticed the trend or have chosen to ignore it due to cash flow problems. It is quite probable that in 2011 or 2012 even some fairly well-known companies (including those engaged in infrastructure construction) will have to discontinue or restructure their operations. Above all, construction companies' ability to continue their operation will depend on how well they can manage their finances and whether they can maintain sufficient liquidity.
- Both active projects and those secured in 2011 will be significantly influenced by various terms and conditions (including different warranties, long settlement terms, etc) dictated by customers that are becoming increasingly unfavourable for construction companies.
- Construction contracts' profit margins will remain under pressure from continuously fierce competition and rising input prices. In addition, companies may continue challenging the results of poorly prepared public procurement tenders. However, an even larger number of (public procurement) tenders will be cancelled because customers have prepared their budgets using the construction prices of 2009-2010 which in the current situation are no longer realistic and the bids made by construction companies exceed them by tens of percents. The time and finance costs are regrettably high for all involved.
- The situation in the labour market has stabilised to a certain extent and construction workers' outflow to the Scandinavian countries will not increase significantly. Companies have adapted to the situation but when volumes recover the availability of qualified labour will again be an issue. In general, in 2011 the base wage paid by construction companies that have to maintain tight cost control is not yet expected to increase.
- In 2011 and 2012 the construction market will be seriously and unfortunately somewhat unpredictably impacted by a massive and rapid allocation of funds raised from the sale of the carbon dioxide emission quotas for improving the energy efficiency of buildings. Around 150 million euros will be distributed for that purpose within roughly one and a half years. This will trigger rapid demand hikes in some specialized construction segments (joint filling, facade and roof works, heating systems, etc) as well as related segments, which will cause an unreasonable rise in respective prices and may cause temporary problems for the entire sector.
- Overall economic recovery should increase the banks' interest in granting private-sector customers new investment loans and, in the case of a suitable risk profile, also funding for real estate development. The investments made with the involvement of banks would not trigger major market growth but would give a much-needed signal of the stabilisation of the investment climate, creating a basis for more visible growth in



2012. Realisation of the assumption depends on whether the euro-zone countries will be able to prevent the debt crisis from spreading further into the banking sector.

Nordecon Group's main operational objectives for 2011

In 2011, Nordecon Group will focus on raising profitability compared with 2010 by:

1. Vigorously improving the efficiency of various aspects of its core operations
2. Maintaining strict control over fixed costs
3. Keeping up and improving the team spirit and dedication of the Nordecon people

Latvia and Lithuania

According to the Group's assessment, the Latvian construction market will continue adjusting to the post-recession environment also in 2011. The Group does not exclude the possibility that in the next few years it will undertake some projects in Latvia through its Estonian entities, involving partners where necessary. Continuation of project-based business assumes the availability of profitable projects. The decision does not change the Group's strategic objectives in the Latvian construction market, i.e. the objective of conducting future operations in the Latvian market through local subsidiaries.

The Lithuanian construction market does not show any signs of recovery in areas where Group entity Nordecon Statyba UAB is competitive. Therefore, the operations of the Lithuanian-based Nordecon Statyba UAB have been suspended and the Group is monitoring the market situation. The temporary suspension of operations does not cause any major costs for the Group. It is possible that the Lithuanian operations will remain suspended through 2011. The decision does not change the Group's strategic objectives in the Lithuanian construction market, i.e. the objective of conducting future operations in the Lithuanian market through local subsidiaries.

Ukraine

The Group will continue operating in Ukraine as a general contractor and project manager in the construction of commercial buildings and production facilities. In 2009 and 2010, there were practically no private foreign customers in those sub-segments. Regrettably, the Ukrainian construction market has not recovered notably in 2011 although there are some signs of improvement. The Group has decided to continue its operation in Ukraine. Costs are kept minimal and the Group is maintaining readiness for re-launching more active operations

The main risks in the Ukrainian market are connected with the low administrative efficiency of the central and local government and the judicial system. The recovery of the Ukrainian economy from the crisis of 2008-2009 has been slow, which has affected inflation and the availability of quality construction inputs. Demand is mainly undermined by private customers' lack of financing. The political situation has not stabilised as quickly as anticipated and private sector customers have not started investing in projects where the Group has a competitive advantage

However, the construction market of a country with a population of around 46 million has strong business potential. The Group's key success factor is relatively little competition among project management companies (the Group offers flexible construction management in combination with European practices and competencies) compared with the real needs of a normally functioning construction market. The Group's management is confident that the ongoing downturn in the Ukrainian construction market and economy as a whole will transform local understanding and expectations of general contracting and project management in the construction business and, in the long-term perspective, the new thinking will improve the Group's position.

Belarus

Although there is a certain temporal development lag, the Belarusian business environment has features similar to the Ukrainian one: bureaucracy, complex taxation principles and constraints on cross-border services. The potential of the Belarusian construction market is also comparable to the Ukrainian one. There is demand for new buildings, the state has started to permit more direct foreign investment and there are no contemporarily managed construction companies in the market. Despite this, in 2011 the Group will operate in Belarus on a project basis, completing its only active project. After this, for the time being no new projects will be started.



Finland

In Finland, the Group provides subcontracting services in the field of concrete works. This is an area where Estonian companies still have a certain edge over local entities through lower personnel expenses. The Finnish concrete works market allows the Group (both as a contractor and subcontractor) to compete for selected projects (the main criteria are the location and the customer's risk profile). We expect demand for concrete works to remain stable in 2011. Nevertheless, the Group will maintain a rational approach and will avoid taking excessive risks in Finland. The Group is currently not planning to penetrate other segments of the Finnish construction market (general contracting, project management, etc).



Description of the main risks

Business risks

Management believes that in the near future the main business risk will be stiff competition that induces companies to bid unreasonably low prices in a situation where input prices have started rising and may cause an exponential slide in profitability. In the construction market, the situation is aggravated by the fact that the need for winning contracts that would cover fixed costs and overheads at a level ensuring normal operating capacities is increasing. The Group's management expects to mitigate the risks by tight cost control and effective austerity measures as well as attention to detail and thorough analysis of new projects.

To mitigate the risks arising from the seasonal nature of the construction business (primarily the weather conditions during the winter months), the Group has acquired road maintenance contracts that generate year-round business. In addition, Group companies are constantly seeking new technical solutions that would allow working more efficiently under changeable weather conditions.

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project, both general frame agreements and special project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee issued for the benefit of a Group company. To remedy builder-caused deficiencies which may be detected during the warranty period, Group companies create warranties provisions. At 30 June 2011, the provisions (including current and non-current ones) totalled 1,045 thousand euros. At 30 June 2010, the corresponding figure was 857 thousand euros.

Credit risk

For credit risk management, a potential customer's settlement behaviour and creditworthiness are analysed already in the tendering stage. Subsequent to the signature of a contract, the customer's settlement behaviour is monitored on an ongoing basis from the making of an advance payment to adherence to the contractual settlement schedule, which usually depends on the documentation of the delivery of work performed. We believe that the system in place allows us to respond to customers' settlement difficulties sufficiently promptly. At the end of the first half-year, our customers' settlement behaviour was relatively good considering the economic situation although there were also some problem customers. The proportion of overdue receivables is stable; the figure consists mostly of items that not significantly overdue and stem from the routines to be completed between public sector companies and their financing authorities. In accordance with the Group's accounting policies, all receivables that are more than 180 days overdue or in respect of which no additional settlement agreements have been reached are recognised as an expense.

In the first half of 2011, expenses from write-down of receivables totalled 2 thousand euros. In the first half of 2010, recoveries of previously expensed receivables exceeded expenses from the write-down of receivables and the Group could recognise a reduction of expenses of 4 thousand euros.

Liquidity risk

Free funds are placed in overnight or fixed-interest term deposits with the largest banks in the markets where the Group operates. To ensure timely settlement of liabilities, approximately two weeks' working capital is kept in current accounts or overnight deposits. Where necessary, overdraft facilities are used. At the reporting date, the Group's current assets exceeded its current liabilities 1.19-fold (30 June 2010: 1.53-fold) and available cash funds totalled 6,343 thousand euros (30 June 2010: 10,476 thousand euros).

The balance of free cash funds has increased compared with the end of the first quarter by 4,040 thousand euros. Despite an improvement in its liquidity position, the Group remains exposed to higher than average liquidity risk resulting from a gap between the customers' long settlement terms (mostly 45 to 56 days) and the subcontractors' increasing interest to negotiate shorter settlement terms (mostly 21-45 days). In addition, business growth is increasing the Group's need for working capital, a trend that will become more apparent in subsequent quarters. The Group counteracts the differences in settlement terms by using factoring where possible. In order to raise additional working capital, the Group has started negotiations with banks based on the Nordecon Group Business Plan and Financing Program 2011-2014, prepared at the request of Nordecon AS by one of the world's leading consulting firms Roland Berger Strategy Consultants GmbH.



Interest rate risk

The Group's interest-bearing liabilities to banks have mainly fixed interest rates. Finance lease liabilities have floating interest rates and are linked to EURIBOR. At 30 June 2011, the Group's interest-bearing loans and borrowings totalled 31,344 thousand euros, an increase of 3,177 thousand euros year-over-year. Interest expense for the first half-year amounted to 499 thousand euros. Compared with the same period in 2010, interest expense has increased by 4 thousand euros. The Group's interest rate risk is currently influenced by two factors: a rise in the base rate for floating interest rates (EURIBOR) and a low interest coverage ratio caused by low operating cash flows. The first factor is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates. The realisation of the interest payment cash flow risk depends on the success of operating activities. The Group has not acquired derivatives to hedge its interest rate risk.

Currency risk





As a rule, construction contracts and subcontractors' service contracts are made in the currency of the host country: in euros (EUR), in Ukrainian hryvnas (UAH) and in Belarusian rubles (BYR). In connection with discontinuance of operations in Latvia and Lithuania, the currency risks of those countries are no longer relevant. Services purchased from other countries are mostly priced in euros, which does not constitute a currency risk for the Group's Estonian entities.

The Group's foreign exchange gains and losses result mainly from its Ukrainian and Belarusian operations because the Ukrainian and Belarusian national currency float against the euro. The Group has not acquired derivatives to hedge its currency risks.

The Group's exchange gains and losses for the first half of 2011 resulted in a net exchange loss of 109 thousand euros. In the comparative period, exchange differences resulted in a net exchange loss of 59 thousand euros.

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 all significant transactions with related parties.

Jaano Vink	Chairman of the Board		11 August 2011
Avo Ambur	Member of the Board		11 August 2011
Marko Raudsik	Member of the Board		11 August 2011
Erkki Suurorg	Member of the Board		11 August 2011



Condensed consolidated interim financial statements

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 (unaudited) for the first six months and second quarter of 2011 and confirms that:

- the policies applied on the preparation of the Group's condensed consolidated interim financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the condensed consolidated interim financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its financial performance, and its cash flows;
- all significant events that occurred before the date on which the condensed consolidated interim financial statements were authorised for issue (11 August 2011) have been properly recognised and disclosed; and
- Nordecon AS and its subsidiaries are going concerns.

Jaano Vink

Chairman of the Board

11 August 2011

Avo Ambur

Member of the Board

11 August 2011

Marko Raudsik

Member of the Board

11 August 2011

Erkki Suurorg

Member of the Board

11 August 2011



Condensed consolidated interim statement of financial position

EUR`000	Note	30 June 2011	31 December 2010
ASSETS			
Current assets			
Cash and cash equivalents		6,343	5,818
Trade and other receivables	2	43,660	31,266
Prepayments		1,943	1,060
Inventories	3	26,795	24,982
Non-current assets held for sale		313	321
Total current assets		79,054	63,447
Non-current assets			
Investments in equity-accounted investees		147	99
Other investments		26	26
Trade and other receivables		2,454	2,215
Investment property		4,930	4,930
Property, plant and equipment	4	7,840	9,038
Intangible assets	4	15,432	15,486
Total non-current assets		30,829	31,794
TOTAL ASSETS		109,883	95,241
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	18,697	19,231
Trade payables		34,450	17,429
Other payables		3,721	3,446
Deferred income		8,951	4,425
Provisions		763	1,160
Total current liabilities		66,582	45,691
Non-current liabilities			
Loans and borrowings	5, 6	12,648	15,377
Trade payables		199	215
Other payables		96	96
Provisions		423	423
Total non-current liabilities		13,366	16,111
TOTAL LIABILITIES		79,948	61,802
EQUITY			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,558
Translation reserve		-90	-233
Retained earnings		6,605	10,257
Total equity attributable to equity holders of the parent		28,726	32,240
Non-controlling interest		1,209	1,199
TOTAL EQUITY		29,935	33,439
TOTAL LIABILITIES AND EQUITY		109,883	95,241



Condensed consolidated interim statement of comprehensive income

EUR`000	Note	Q2 2011	Q2 2010	6M 2011	6M 2010	2010
Revenue	8, 9	36,706	26,153	54,429	37,401	99,312
Cost of sales	10	-38,061	-27,525	-55,857	-40,290	-100,012
Gross loss		-1,355	-1,372	-1,428	-2,889	-700
Distribution expenses		-68	-72	-164	-200	-401
Administrative expenses	11	-1,057	-1,105	-2,124	-2,273	-4,887
Other operating income	12	153	319	379	362	820
Other operating expenses	12	-58	-325	-164	-469	-3,807
Operating loss		-2,385	-2,555	-3,501	-5,469	-8,975
Finance income	13	167	195	350	2,702	3,059
Finance expenses	13	-306	-284	-611	-1,484	-6,338
Net finance income / expense		-139	-89	-261	1,218	-3,279
Share of profit / loss of equity-accounted investees		47	-40	47	-40	-517
Loss before income tax		-2,477	-2,684	-3,715	-4,291	-12,771
Income tax expense / income		-5	116	-1	116	33
Loss for the period		-2,482	-2,568	-3,716	-4,175	-12,738
Other comprehensive income / expense:						
Exchange differences on translating foreign operations		101	-59	216	-95	-28
Total other comprehensive income / expense for the period		101	-59	216	-95	-28
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD		-2,381	-2,627	-3,500	-4,270	-12,766
Loss attributable to:						
- Owners of the parent		-2,475	-2,471	-3,652	-3,788	-11,811
- Non-controlling interests		-7	-97	-64	-387	-927
Loss for the period		-2,482	-2,568	-3,716	-4,175	-12,738
Total comprehensive expense attributable to:						
- Owners of the parent		-2,420	-2,530	-3,510	-3,883	-11,839
- Non-controlling interests		39	-97	10	-387	-927
Total comprehensive expense		-2,381	-2,627	-3,500	-4,270	-12,766
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	-0.10	-0.08	-0.12	-0.12	-0.38
Diluted earnings per share (EUR)	7	-0.10	-0.08	-0.12	-0.12	-0.38



Condensed consolidated interim statement of cash flows

EUR`000	6M 2011	6M 2010
Cash flows from operating activities		
Cash receipts from customers	58,164	46,025
Cash paid to suppliers	-49,220	-35,757
VAT paid	-1,246	-2,010
Cash paid to and for employees	-5,851	-7,532
Income tax paid	-1	-36
Net cash from operating activities	1,846	690
Cash flows from investing activities		
Acquisition of property, plant and equipment	-13	-78
Proceeds from sale of property, plant and equipment and intangible assets	280	344
Proceeds from sale of investment property	0	677
Disposal of subsidiaries, net of cash transferred	0	-617
Acquisition of associates	0	-2
Loans granted	-87	-178
Repayment of loans granted	1,631	177
Dividends received	4	4
Interest received	181	134
Net cash from investing activities	1,996	461
Cash flows from financing activities		
Proceeds from loans received	892	2,344
Repayment of loans received	-2,408	-5,675
Payment of finance lease liabilities	-931	-1,351
Interest paid	-545	-407
Other payments made	-2	4
Net cash used in financing activities	-2,994	-5,085
Net cash flow	848	-3,934
Cash and cash equivalents at beginning of period	5,818	14,392
Effect of exchange rate fluctuations	-323	18
Increase / decrease in cash and cash equivalents	848	-3,934
Cash and cash equivalents at end of period	6,343	10,476



Condensed consolidated interim statement of changes in equity

EUR`000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2009	19,657	2,557	-205	22,067	44,077	706	44,784
Loss for the period				-3,788	-3,788	-387	-4,175
Other comprehensive expense	0	0	-95	0	-95	0	-95
Increase of capital reserve	0	1	0	0	1	0	1
Changes in non-controlling interest	0	0	0	0	0	1,382	1,382
Balance at 30 June 2010	19,657	2,558	-299	18,279	40,195	1,701	41,896
Balance at 31 December 2010	19,657	2,558	-233	10,257	32,240	1,199	33,439
Loss for the period				-3,652	-3,652	-64	-3,716
Other comprehensive income	0	0	143	0	143	74	216
Reduction of capital reserve	0	-4	0	0	-4	0	-4
Balance at 30 June 2011	19,657	2,554	-90	6,605	28,726	1,209	29,935



Notes to the condensed consolidated interim financial statements

NOTE 1. Significant accounting policies

Nordecon AS is a company incorporated and domiciled in Estonia. The shares of Nordecon AS have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006. The controlling shareholder of Nordecon Group is AS Nordic Contractors that holds 53.67% of the shares in Nordecon AS.

The condensed consolidated interim financial statements as at and for the six months ended 30 June 2011 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 2010.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2010. The effect of any new and revised standards that have taken effect is described in this note.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the second quarter and six months of 2011 give a true and fair view of the Group's result of operations and the parent and all its subsidiaries that are included in these financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and they contain only the consolidated financial statements of the Group.

Standards effective from 1 January 2011 that have an impact on the Group's financial statements:

None.

New and revised standards and interpretations effective from 1 January 2011 or the current reporting period that are not relevant for the Group on the preparation of the interim financial statements:

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011)
- IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 February 2010)
- Revised IAS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011)

Changes in the presentation of the interim financial statements

On preparing the annual financial statements for 2010, the Group changed its segment reporting policies. The results of the subsidiary Nordecon Betoön OÜ were reclassified to the Buildings (EU) segment because historically most of its business has been related to buildings construction. In previous periods, the subsidiary was included in the Infrastructure (EU) segment because it was part of the Nordecon Infra subgroup that was engaged in infrastructure construction. In connection with the merger of Nordecon Infra AS with the parent Nordecon AS at the end of 2010, the Group's chief operating decision maker analyses the results of Nordecon Betoön OÜ within the composition of the Buildings (EU) segment. In addition, the Group specified the allocation and elimination of inter-segment transactions. For further information on the changes, please refer to note 8.



NOTE 2. Trade and other receivables

	EUR`000	
	30 June 2011	31 December 2010
Current portion		
Trade receivables	22,655	15,319
Retentions receivable	2,119	1,121
Receivables from related parties	840	1,741
Loans to related parties	8,018	9,354
Miscellaneous receivables	835	757
Total receivables and loans granted	34,467	28,292
Due from customers for contract work	9,193	2,974
Total trade and other receivables	43,660	31,266

	EUR`000	
	30 June 2010	31 December 2010
Non-current portion		
Receivables from related parties	62	0
Loans to related parties	2,063	1,994
Miscellaneous receivables	329	221
Total trade and other receivables	2,454	2,215

NOTE 3. Inventories

	EUR`000	
	30 June 2011	31 December 2010
Raw and other materials	3,193	3,125
Work in progress	6,659	4,290
Real estate held for resale	13,467	13,535
Finished goods	3,476	4,032
Total inventories	26,795	24,982

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first half of 2011, the Group did not perform any major transactions with items of property, plant and equipment. The carrying amount of property, plant and equipment has decreased compared with 31 December 2010 mainly through depreciation and sales of property, plant and equipment. Cash proceeds from the sale of property, plant and equipment totalled 280 thousand euros (see statement of cash flows) and sales gain amounted to 219 thousand euros (note 12).

Intangible assets

In the first half of 2011, the Group did not perform any major transactions with intangible assets. The carrying amount of intangible assets has decreased compared with 31 December 2010 mainly through amortisation.



NOTE 5. Finance and operating leases

		EUR`000
	30 June 2011	31 December 2010
Finance lease liabilities		
Payable in less than 1 year	1,898	2,105
Payable between 1 and 5 years	1,382	2,078
Total finance lease liabilities	3,270	4,183
Base currency EUR	3,265	4,166
Base currency UAH	5	17
Periodicity of payments	Monthly	Monthly
Interest rates in Estonia	3.0%-8.0%	3.0%-8.0%
Interest rates in Ukraine	10%-12%	10%-12%
Finance lease payments made	6M 2011	6M 2010
Principal payments made during the period	941	1,351
Interest payments made during the period	65	85
		EUR`000
	6M 2011	6M 2010
Operating lease rentals paid for		
Cars	357	374
Construction equipment	1,235	576
Premises	215	177
Software	174	114
Total operating lease rentals paid during the period	1,981	1,241

NOTE 6. Interest-bearing loans and borrowings

		EUR`000
	30 June 2011	31 December 2010
Short-term bank loans	9,009	8,611
Short-term portion of long-term bank loans	5,635	5,666
Short-term portion of finance lease liabilities	1,898	2,105
Factoring liabilities	2,155	2,849
Total current loans and borrowings	18,697	19,231
Long-term portion of bank loans	10,282	12,315
Long-term portion of finance lease-liabilities	1,382	2,078
Other long-term loans	984	984
Total non-current loans and borrowings	12,648	15,377

NOTE 7. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders 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 equity holders of the parent by the weighted average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

	Unit	6M 2011	EUR`000 6M 2010
Loss for the period attributable to owners of the parent	EUR`000	-3,652	-3,788
Weighted average number of shares	`000	30,757	30,757
Basic earnings per share		-0.12	-0.12
Diluted earnings per share		-0.12	-0.12

Nordecon AS has not issued any share options or other convertible instruments. Therefore, diluted earnings per share equal basic earnings per share.



NOTE 8. Segment reporting – business 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 operating segments monitored by the chief operating decision maker include both a business and a geographical dimension. The Group's reportable operating segments are:

- Buildings (European Union)
- Buildings (Ukraine and Belarus)
- Infrastructure (European Union)

Other segments comprise insignificant operating segments whose results are not reviewed by the chief operating decision maker on the basis of internally generated financial information.

During the period 2009-2010 the parent of the Group (at that time named Nordecon International AS) operated as a holding company and did not participate in operating activities. Accordingly, its results were not included in segment reporting. After internal restructuring, from 2011 the parent Nordecon AS is involved in the Group's core business activities and its revenues and profit/loss from those activities are included in segment reporting. The parent company operates in both Buildings and Infrastructure segments. Revenues and profit/loss from activities not related to core business operations or which cannot be allocated to operating segments on a reliable basis (e.g. support functions that provide services concurrently to both Infrastructure and Buildings segments) are reported in the segment and consolidated information reconciliation tables.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the profit of an operating segment (including distribution and administrative expenses, interest expense, and income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information. Such expenses are recorded in segment reporting using the same principles that are applied on their recognition in the financial statements.

HY1

EUR'000	Buildings	Buildings	Infrastructure	Other	Total
6M 2011	EU	UKR/BLR	EU	segments	
Total revenue	26,284	2,084	27,415	3,541	59,325
Inter-segment revenue	-2,664	0	-13	-2,772	-5,449
Revenue from external customers	23,620	2,084	27,402	769	53,877
Segment profit/loss	-513	102	-725	-94	-1,230
6M 2010	Buildings	Buildings	Infrastructure	Other	Total
	EU	UKR/BLR	EU	segments	
Total revenue	17,619	2,231	18,625	1,162	39,636
Inter-segment revenue	-1,587	-9	-7	-673	-2,275
Revenue from external customers	16,032	2,222	18,618	489	37,361
Segment profit/loss	-1,138	195	-1,381	-340	-2,664



Q2

EUR'000 Q2 2011	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	16,569	1,108	19,013	1,603	38,293
Inter-segment revenue	-696	0	0	-1,189	-1,885
Revenue from external customers	15,873	1,108	19,013	414	36,408
Segment profit/loss	-1,578	-237	254	26	-1,535

Q2 2010	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	9,607	1,792	15,821	910	28,131
Inter-segment revenue	-1,468	-3	-6	-522	-1,999
Revenue from external customers	8,139	1,789	15,815	388	26,131
Segment profit/loss	-1,508	308	-8	-8	-1,216

Reconciliation of segment revenues

EUR'000	6M 2011	Q2 2011	6M 2010	Q2 2010
Total revenues for reportable segments	55,784	36,690	38,474	27,220
Revenue for other segments	3,541	1,603	1,162	910
Elimination of inter-segment revenues	-5,450	-1,886	-2,275	-1,999
Other revenue	554	299	40	22
Total consolidated revenue	54,429	36,706	37,401	26,153

Reconciliation of segment profit

EUR'000	6M 2011	Q2 2011	6M 2010	Q2 2010
Total loss for reportable segments	-1,136	-1,561	-2,324	-1,208
Total loss for other segments	-94	26	-340	-8
Inter-segment loss	-20	-16	-544	-538
Other profit/loss	-177	196	320	381
Consolidated gross loss	-1,428	-1,355	-2,889	-1,372
Unallocated expenses:				
Distribution expenses	-164	-68	-200	-72
Administrative expenses	-2,124	-1,057	-2,273	-1,105
Other operating income / expenses	215	95	-107	-7
Consolidated operating loss	-3,501	-2,385	-5,469	-2,556
Finance income	350	167	2,702	195
Finance expenses	-611	-306	-1,484	-284
Share of loss of equity-accounted investees	47	47	-40	-40
Consolidated loss before tax	-3,715	-2,477	-4,291	-2,685



NOTE 9. Segment reporting – geographical segments

EUR'000	6M 2011	Q2 2011	6M 2010	Q2 2010
Revenue				
Estonia	51,625	35,217	35,190	24,379
Ukraine	222	182	2,155	1,717
Belarus	1,863	927	75	75
Finland	732	380	0	0
Inter-segment eliminations	-13	0	-19	-18
Total revenue	54,429	36,706	37,401	26,153

NOTE 10. Cost of sales

	6M 2011	EUR'000 6M 2010
Cost of materials, goods and services used	48,969	32,764
Personnel expenses	5,596	5,632
Depreciation and amortisation expense	1,131	1,504
Other expenses	161	391
Total cost of sales	55,857	40,290

NOTE 11. Administrative expenses

	6M 2011	EUR'000 6M 2010
Personnel expenses	1,024	1,313
Cost of materials, goods and services used	955	701
Depreciation and amortisation expense	92	138
Other expenses	53	121
Total administrative expenses	2,124	2,273

NOTE 12. Other operating income and other operating expenses

Other operating income	6M 2011	EUR'000 6M 2010
Gains on sale of property, plant and equipment and intangible assets	219	124
Gains on sale of investment property	0	18
Foreign exchange gains	127	103
Other income	33	117
Total other operating income	379	362

Other operating expenses	6M 2011	EUR'000 6M 2010
Losses on write-off of property, plant and equipment and intangible assets	3	1
Impairment losses on goodwill	0	109
Foreign exchange losses	123	282
Impairment losses on receivables	0	-4
Membership fees	1	5
Other expenses	37	76
Total other operating expenses	164	469



NOTE 13. Finance income and finance expenses

Finance income	EUR`000	
	6M 2011	6M 2010
Gains on disposal of investments in subsidiaries and associates	0	2,085
Interest income on loans	342	378
Foreign exchange gains	1	131
Other finance income	7	108
Total finance income	350	2,702

Finance expenses	EUR`000	
	6M 2011	6M 2010
Interest expense	499	495
Foreign exchange losses	112	11
Other finance expenses	0	978
Total finance expenses	611	1,484

NOTE 14. Transactions with related parties

For the purposes of these financial statements, parties are 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' parent company AS Nordic Contractors and its shareholders
- Other companies of AS Nordic Contractors group
- Associates and joint ventures (equity-accounted investees) of Nordecon AS
- Members of the board and council of Nordecon AS, their close family members and companies related to them
- Individuals whose shareholding implies significant influence

During the reporting period, Group entities performed purchase and sales transactions with related parties in the following volumes:

Volume of transactions	EUR`000			
	6M 2011		6M 2010	
	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	236	3	179	3
Companies of AS Nordic Contractors group	380	454	1	472
Equity-accounted investees	0	0	0	26
Companies related to a member of the council	0	0	0	3
Total	616	457	180	504

Volume of transactions	EUR`000			
	6M 2011		6M 2010	
	Purchase	Sale	Purchase	Sale
Construction services	432	436	28	475
Lease and other services	184	21	152	29
Total	616	457	180	504

Transactions with related parties were conducted on market terms or using effective transfer pricing principles.



In the reporting period, interest income on loans to associates amounted to 224 thousand euros (HY1 2010: 214 thousand euros), interest income on loans to joint ventures amounted to 53 thousand euros (HY1 2010: 42 thousand euros) and interest income on loans to other related parties amounted to 61 thousand euros (HY1 2010: 72 thousand euros).

Receivables from and liabilities to related parties at the end of reporting period:

EUR`000	30 June 2011		31 December 2010	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	1	70	1	97
Companies of AS Nordic Contractors group	62	0	2,072	0
Companies related to a member of the council	0	0	0	4
Associates - receivables	839	32	1,004	1
Associates – loans and interest	8,425	0	8,040	0
Joint ventures – loans and interest	1,656	0	1,601	0
Total	10,983	102	13,089	102

Receivables from the companies of AS Nordic Contractors group and associates consist mostly of amounts due for construction services.

In the first half of 2011, the remuneration of the members of the council of Nordecon AS including associated social security charges amounted to 50 thousand euros. The corresponding figure for the first quarter of 2010 was also 50 thousand euros. The remuneration and bonus benefits of the members of the board of Nordecon AS including social security charges totalled 156 thousand euros compared with 72 thousand euros for the first half of 2010. The remuneration provided to the board has increased because in the comparative period the board had two members while the current number is four. The composition of board changed in connection with the merger of two subsidiaries and the Group's parent that took place at the end of 2010.