Financial report for the first quarter and three months of 2012

(unaudited)

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Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
Domicile	Republic of Estonia
Telephone	+ 372 615 4400
Fax	+ 372 615 4401
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business activities	Construction of buildings Civil engineering Specialised construction activities Architectural and engineering activities
Financial year	1 January 2012 – 31 December 2012
Reporting period	1 January 2012 – 31 March 2012
Council	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
Board	Jaano Vink (chairman of the board), Avo Ambur, 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 to become one of the leading construction groups in Estonia and a strong player 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 reasonable balance between buildings and infrastructure construction. We have gradually 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 our customers high quality integrated solutions in the construction of commercial, industrial and public buildings as well as infrastructure – roads, landfill sites, utility networks and port facilities. In addition, the Group is involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

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

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 and hold international quality management certificate ISO 9001, international environment management certificate ISO 14001 and 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 premier integrated 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 until 2013

In line with the strategy approved by the council in 2010, in the next years the Group will have to focus on its core business in its main market, Estonia, where Nordecon is represented in practically all segments of the construction market and can rely on extensive local experience.

In order to adapt to changes in the external environment, we will have to continue implementing the plans made for internal restructuring and proactive cost and risk management. Only this will allow achieving profitability and year-over-year growth in operating volumes. It is also the only way of creating opportunities for successfully entering the growth phase of the market when it emerges (applies also to our target foreign markets).

According to the strategy, until 2013 (inclusive) the Group will focus on the above. The approach for 2012-2013 is aimed at supporting the Group's recovery from the slump and preparing ground for seizing the opportunities offered by market growth in 2012.

In the near term, 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 years.

Nordecon Group's main strategic objectives until 2013

- To complete the significant adjustments to the Group's structure and management 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 building construction operations in Ukraine in line with the former strategy
- 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 becomes 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 be by the end of 2013 a leading construction group in Estonia that earns half of its revenue from infrastructure and the other half from building construction

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".

Changes in the Group's business operations in the first quarter of 2012

Changes in the Group's Estonian operations

In the first quarter, there were no changes in the Group's Estonian operations. The Group continued to operate in the building and infrastructure segments, being active in practically all market sub-segments A significant proportion of the Group's core business was conducted by the parent, which continued to act as a holding company for the Group's main subsidiaries. In addition to the parent, project management services were rendered by the subsidiary AS Eston Ehitus, which operates mostly in western and central Estonia.

As regards other main business lines, the Group continued to provide concrete services (Nordecon Betoon OÜ), renting out heavy construction machinery and equipment (Kaurits OÜ), and providing regional road maintenance services in the Keila area in Harju county and in Järva and Hiiu counties (delivered by Nordecon AS, Järva Teed AS and Hiiu Teed OÜ respectively).

During the period, the Group did not enter any new operating segments in Estonia.

Foreign operations

Latvia

There were no changes in our Latvian operations compared with the end of 2011. We have currently no construction contracts in progress in Latvia and no subsidiaries domiciled in Latvia

Lithuania

There were no changes in our Lithuanian operations compared with the end of 2011. We have currently no construction contracts in progress in Lithuania. The operations of our Lithuanian subsidiary Nordecon Statyba UAB have been suspended.

Belarus

In the first quarter of 2012, our Belarusian subsidiary Eurocon Stroi IOOO completed its only remaining contract. By the date of release of this report, the asset has been delivered to the customer and construction work has been completed. According to the decision made by the Group's management in 2011, after the completion of this project, the Group will discontinue its operations in Belarus. At the date of issue of this report, we have started liquidating our Belarusian entity.

Ukraine

There were no changes in our Ukrainian operations compared with the end of 2011.

The Group's management has decided that we will continue our operations in Ukraine until the end of 2012. Local management has been assigned the task of carrying out the analyses required for formulating a further operating strategy by autumn 2012. Owing to problems persisting in the Ukrainian economy (including the banking sector) and politics, the country has not been able to arouse confidence in the international community and if the political environment deteriorates, the Group may have to revise its current action plan for the Ukrainian market.

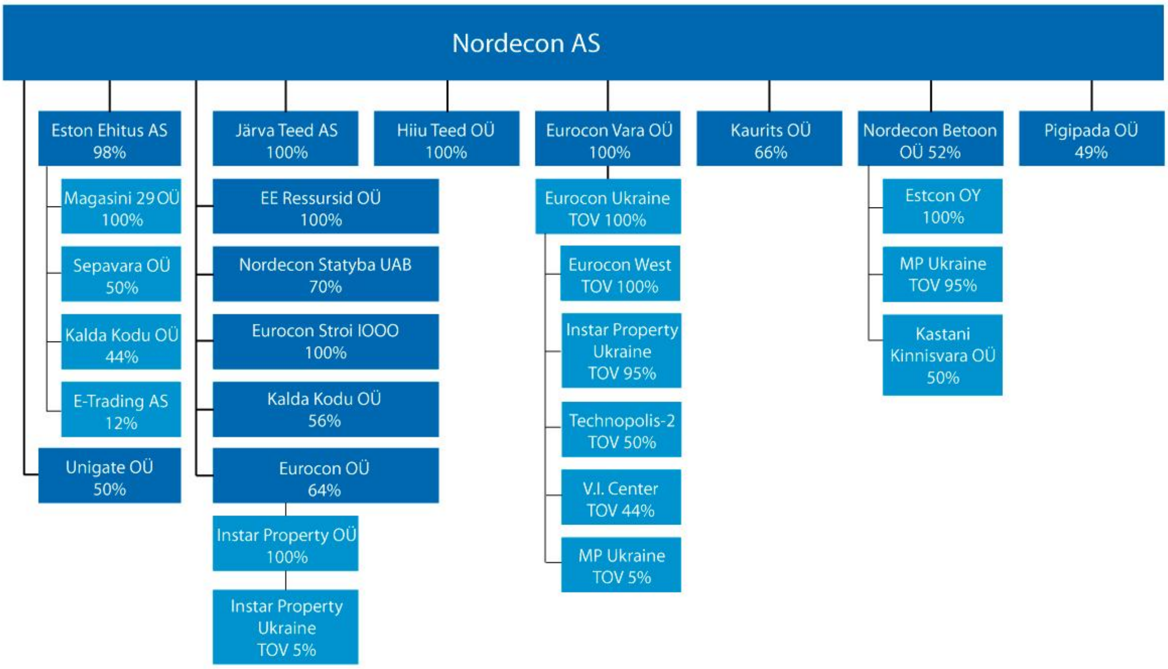
Real estate development projects that require extensive investment (the Group has an interest in two conserved development projects) remain suspended to minimise the risks until the situation in Ukraine becomes clearer. The Group and its co-owners are currently finalising privatisation of land in the V.I. Center TOV development project, a step undertaken for securing the investment. The proceedings should be completed in 2012.

Finland

There were no changes in our Finnish operations compared with the end of 2011. The Group's subsidiary Nordecon Betoon OÜ together with its Finnish subsidiary Estcon Oy continued providing subcontracting services in the concrete works sector in Finland.

Group structure

The Group's structure at 31 March 2012, including interests in subsidiaries and associates[1]



[1] The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, 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 quarter of 2012

There were no changes in the Group's structure in the first quarter of 2012 - the structure remained the same as at the end of 2011.

Financial review

Financial performance

Nordecon Group ended the first quarter of 2012 with a gross profit of 36 thousand euros, a strong improvement on the gross loss of 75 thousand euros incurred in the comparative period. It should also be noted that in the first quarter construction companies' performance is influenced by seasonal factors, such as the weather conditions and the typical features of public procurement (in the first quarter fewer contracts are put out to tender than in the following quarters). Although the weather conditions were somewhat milder than in the previous year, they had a strong impact on the Group's margins. Road maintenance costs are usually the highest in the first quarter and in a situation where revenue is fixed, the weather conditions and enforcement of somewhat stricter maintenance requirements have a direct effect on profitability. Moreover, a long winter season (which causes a so-called technological standstill) means incurrence of fixed costs in the Infrastructure segment where the revenue base shrinks during that period.

We continue the work aimed at bringing the Group back into profit. The cost-cutting and streamlining measures enforced in 2010 yielded results already in 2011. We expect an even greater improvement this year, because the last remaining loss-generating contracts, which were signed in 2009-2010, will be completed. On the other hand, it should be kept in mind that the profits of construction contracts are recognised based on the stage of completion of contract activity, which means that the profits earned under long-term contracts are earned gradually over the entire contract term.

Although the Group's margins do not yet meet the targets set by management, we believe that we are moving in the right direction to improve our operating margins compared with 2011. The current estimates of the final outcomes of contracts included in our order book (the portfolio of secured uncompleted contracts) support that view.

According to the Group's assessment, in 2011 competition in certain segments of the construction market (e.g. road construction and construction of water and wastewater networks) weakened considerably. This may be attributed to some construction companies going bankrupt or deciding to exit the market as well as the fact that in recent years all companies have had to reduce their personnel and support structures, which has undermined some players' bidding capabilities. In addition, many companies were held back by tougher financial conditions imposed by customers and the financing institutions' reluctance to provide guarantees. Most construction companies have become aware that long-term construction contracts entail the risk of growth in input prices. However, there is still no indication of a decrease in competitive pricing pressure in building construction, where the lack of private sector customers has rendered the market too small for all general contractors. Altogether, this means that companies are weighing the risks involved in price-setting more carefully than during the period of rapid downturn but the risks to profitability still persist.

Administrative expenses for the first quarter of 2012 totalled 1,230 thousand euros including non-recurring consulting fees incurred to adjust the Group's operating strategy to changes in the external environment. Compared with the same period last year, the ratio of administrative expenses to revenue decreased to 5.5% (Q1 2011: 6.0%). Our cost-control measures are yielding strong results and we believe that on a whole-year basis we can maintain the Group's administrative costs below the target ceiling, i.e. 5% of revenue.

The Group's operating loss for the first quarter was 1,245 thousand euros (Q1 2011: 1,116 thousand euros). One of the factors, which caused operating loss to increase slightly compared with a year ago, was that in the comparative period gains on the disposal of property, plant and equipment were more than two times larger (213 thousand euros in Q1 2011 against 100 thousand euros for Q1 2012).

The Group ended the first quarter of 2012 with net loss of 1,408 thousand euros. The loss attributable to owners of the parent, Nordecon AS, was 1,364 thousand euros. The first quarter of 2011 ended in a net loss of 1,234 thousand euros and the loss attributable to owners of the parent was 1,177 thousand euros.

Cash flows

Operating activities for the first quarter of 2012 resulted in a net cash outflow of 3,814 thousand euros (Q1 2011: a net outflow of 1,977 thousand euros). Although cash receipts from customers exceeded cash paid to suppliers, net cash flow was rendered negative by VAT and labour tax payments, which increased substantially compared with the prior year. In the first quarter of 2012, we purchased a significant amount of construction services from abroad from which we could not deduct input VAT but on the resale of the services in Estonia VAT had to be paid. In the previous year, our operations resulted in prepaid VAT, which was used to offset labour tax liabilities. In the first quarter of this year we did not have similar offsetting opportunities.

Operating cash flows continued to be influenced by cyclical fluctuations in project-related cash flows. The settlement terms granted to customers are long and in the case of public procurement generally extend from 45 to 100 days. The Group counteracts cyclical fluctuations with factoring. On the whole, the cash flows of the current year should be positively influenced by the fact that in the next few months we will complete the last remaining contracts signed in 2009-2010, which have generated significant losses.

Cash flows from investing activities resulted in a net outflow of 445 thousand euros (Q1 2011: a net inflow of 248 thousand euros). The main reasons for the net outflow were loans granted to associates and payments and prepayments made for property, plant and equipment. In the comparative period, net cash flow from investing activities was positive because of payments received on the sale of property, plant and equipment. In terms of amounts, cash inflows and outflows from investing activities remained expectedly modest.

Financing activities resulted in a net outflow of 263 thousand euros (Q1 2011: a net outflow of 1,783 thousand euros). The Group's cash flows from financing activities have stabilised thanks to the agreements reached with banks regarding repayment holidays and extension of settlement terms. The changes did not result in any significant change in the loan interest rates.

At 31 March 2012, the Group's cash and cash equivalents totalled 5,385 thousand euros (31 March 2011: 2,303 thousand euros). Management's comments on liquidity risks are presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	3M 2012	3M 2011	3M 2010	2011
Revenue (EUR'000)	22,475	17,723	11,248	147,802
Revenue growth/decrease	27%	58%	-70%	49%
Net loss (EUR'000)	-1,408	-1,234	-1,606	-4,708
Loss attributable to owners of the parent (EUR'000)	-1,364	-1,177	-1,316	-5,304
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	-0.04	-0.04	-0.04	-0.17
Administrative expenses to revenue	5.5%	6.0%	10.4%	3.1%
Administrative expenses to revenue (rolling)	3.1%	4.5%	5.3%	3.1%
EBITDA (EUR'000)	-647	-484	-1,968	-1,819
EBITDA margin	-2.9%	-2.7%	-17.5%	-1.2%
Gross margin	0.2%	-0.4%	-13.5%	0.1%
Operating margin	-5.5%	-6.3%	-25.9%	-3.1%
Operating margin excluding gains on asset sales	-6.0%	-7.5%	-25.9%	-3.5%
Net margin	-6.3%	-7.0%	-14.3%	-3.2%
Return on invested capital	-2.1%	-1.5%	-1.7%	-5.9%
Return on equity	-5.1%	-3.8%	-3.6%	-15.2%
Equity ratio	29.9%	35.5%	44.0%	28.0%
Gearing	42.2%	44.8%	22.8%	32.8%
Current ratio	1.07	1.36	1.74	1.14

	31 March 2012	31 March 2011	31 March 2010	31 Dec 2011
Order book (EUR'000)	136,235	91,974	88,603	134,043

Revenue growth/decrease = (revenue for the reporting period/ revenue for the previous period) – 1*100

Earnings per share (EPS) = net profit attributable to equity holders of the parent / weighted average number of shares outstanding

Administrative expenses to revenue = (administrative expenses/ revenue)*100

Administrative expenses to revenue (rolling) = (past four quarters' administrative expenses/past four quarters' revenue)*100

EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill

EBITDA margin = (EBITDA/revenue)*100

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

Net margin = (net profit for the period/revenue)*100

Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100

Return on equity = (net profit for the period/ the period's average total equity)*100

Equity ratio = (total equity/ total liabilities and equity)*100

Gearing = ((interest-bearing liabilities – cash and cash equivalents)/ (interest-bearing liabilities + equity))*100

Current ratio = total current assets/ total current liabilities

Performance by geographical market

In the first quarter of 2012, roughly 2% of the Group's revenue was generated outside Estonia. In the first quarter of 2011, foreign operations accounted for 8% of the Group's revenue.

	3M 2012	3M 2011	3M 2010	2011
Estonia	98%	92%	96%	97%
Ukraine	0%	0%	4%	0%
Belarus	0%	5%	0%	1%
Finland	2%	3%	0%	2%

The decline in foreign revenues results from discontinuance of operations in the Belarusian market (see also the chapter *Changes in the Group's business operations in the first quarter of 2012*), which in the first quarter of the previous year accounted for 5% of total revenue. Finnish revenues comprise revenue from rendering subcontracting services in the concrete works sector. We expect the contribution of foreign markets to remain stable for the rest of the year.

Geographical diversification of the revenue base has been a consciously deployed strategy by which the Group mitigates the risks resulting from excessive reliance on a single market. Although in the long term our 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 which 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 building and infrastructure construction. The Group is involved in the construction of commercial and industrial buildings and facilities, road construction and maintenance, environmental engineering, concrete works and real estate development.

The Group's revenue for the first quarter of 2012 was 22,475 thousand euros, 27% up on the 17,723 thousand euros generated in the first quarter of 2011. The foundation for revenue growth was laid in 2011 when the Estonian construction market began recovering and the Group secured significantly more new contracts than in 2010. Revenue should continue growing on a year over year basis also in the following quarters, although at a somewhat slower pace.

The Group aims to maintain the revenues of its operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing operations under stressed circumstances when one segment experiences shrinkage. The Group has set an internal ceiling for revenue from the construction of apartment buildings, which has to remain below 20% of the Group's total sales.

Segment revenue

The first-quarter revenues of our two main operating segments were practically equal. Usually, the Buildings segment generates more first-quarter revenue because the winter season hinders full-scale performance of infrastructure projects. The Buildings and Infrastructure segments ended the first quarter of 2012 with revenue of 11,865 thousand euros and 9,973 thousand euros respectively. The corresponding figures for the comparative period were 8,724 thousand euros and 8,389 thousand euros (see note 8).

For a long time, the majority of 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 (78% at the reporting date) of contracts in the Group's order book belong to the Infrastructure segment. Despite this, the segments' revenues have been practically equal because our active building 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. In the next quarters, the contribution of the Infrastructure segment should increase compared with that of the Buildings segment.

Revenue distribution between segments [2]

Operating segments	3M 2012	3M 2011	3M 2010	2011
Buildings	54%	51%	72%	48%
Infrastructure	46%	49%	28%	52%

[2] 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 operating segments based on their nature (i.e. building or infrastructure construction). In the segment reporting presented in the financial statements, aggregation and allocation are based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In *Directors' report*, the revenues of such a subsidiary are presented based on their nature. The differences between the two reports are not significant because in general Group entities specialise in specific areas except for the subsidiary Nordecon Betoon OÜ that is involved in both building and infrastructure construction. The figures for the parent company have been allocated in both parts of the interim report based on the nature of the work.

Revenue distribution within segments

In the Buildings segment, most of the revenue resulted from the construction of public buildings financed by the public sector. However, compared with a year ago, the proportion of public buildings has decreased. Partly this results from growth in the contributions of other sub-segments and partly from the completion of some major contracts (including the contract for the Maritime Museum) in 2011, which reduced revenue compared with a year ago. The period's largest project for the sub-segment was the Ämari Air Base. In 2011 the economic environment improved, triggering some recovery in the commercial buildings and industrial and warehouse facilities sub-segments, where private investors began making small-scale investments (2-4 million euros). As a result, revenue grew in both sub-segments. A significant proportion of the revenue of the industrial and warehouse facilities sub-segment results from the work done for the agricultural sector. Apartment buildings were built for non-Group customers, the Group acting as a general contractor, not a developer.

Revenue distribution within the Buildings segment is influenced by the scarcity of projects on offer, which forces companies to compete in all market segments as the number of contracts awarded is small compared to bids made. The situation does not allow concentrating on a specific area and during the year revenue distribution within the segment may change significantly.

Revenue distribution within the Buildings segment	3M 2012	3M 2011	3M 2010	2011
Commercial buildings	19%	11%	22%	12%
Industrial and warehouse facilities	32%	28%	28%	40%
Public buildings	42%	58%	34%	45%
Apartment buildings	7%	3%	16%	3%

In the Infrastructure segment, the main contributor was other engineering, where most of the revenue was earned on the construction of water and wastewater networks in different places across Estonia. The decrease in the sub-segment's contribution is attributable to revenue growth in other sub-segments. In particular, significant revenue growth was achieved in road construction and maintenance and in specialist engineering. In road construction, the largest contracts with a positive impact were the construction of the Aruvalla-Kose road section, awarded in 2011, and the Luige intersection on the Tallinn ring road. In specialist engineering, growth was underpinned by the construction of facilities for Sillamäe port, which commenced in the second half of 2011. The contribution of environmental engineering has decreased because there is currently no contract comparable to the construction of a bio-filter for the wastewater treatment plant of Tallinn, which was in progress in the first quarter of 2011. In light of existing and recently secured major road construction contracts (including the construction of the Tartu western bypass and the Tartu city eastern ring road), the contribution of road construction and maintenance should increase in the following quarters.

Revenue distribution within the Infrastructure segment	3M 2012	3M 2011	3M 2010	2011
Road construction and maintenance	36%	21%	52%	47%
Specialist engineering (including hydraulic engineering)	19%	1%	3%	10%
Other engineering	41%	50%	30%	35%
Environmental engineering	4%	28%	15%	8%

Order book

At 31 March 2012, our order book stood at 136,235 thousand euros, being 48% larger than at 31 March 2011, when the figure was 91,974 thousand euros. Order book has increased thanks to general growth in the construction market and successful bidding, which has led to the award of several major contracts (such as the Aruvalla-Kose road section, Sillamäe port facilities, Luige intersection, Ämari Air Base, etc) since the second quarter of 2011.

	3M 2012	3M 2011	3M 2010	2011
Order book (EUR'000)	136,235	91,974	88,603	134,043

At 78% the Infrastructure segment continues to account for a major proportion of the total order book (31 March 2011: 71%).

Between the reporting date (31 March 2012) and the date of release of this report, Group companies have been awarded construction contracts of approximately 26,623 thousand euros. The figure includes a contract of 13,955 thousand euros signed on 26 April 2012 for the design and build of section 1 of the Tartu city eastern ring road.

People

Staff and personnel expenses

During the first quarter of 2012, the Group (the parent and the subsidiaries) employed, on average, 734 people including 362 engineers and technical personnel (ETP). In connection with growth in the Group's operating volumes in 2011, both the number ETP and the number of workers have increased year over year. Because of the seasonal nature of construction activity, the number of staff may increase somewhat during the year.

Average number of the Group's employees (comprising all Group entities)

	3M 2012	3M 2011	3M 2010	2011
ETP	362	337	354	351
Workers	372	362	391	380
Total average	**734**	**699**	**745**	**731**

The Group's personnel expenses for the first quarter of 2012 including all associated taxes totalled 3,147 thousand euros, 2% up on the first quarter of 2011 when personnel expenses were 3,076 thousand euros.

The remuneration of the members of the council of Nordecon AS, including associated social security charges, amounted to 21 thousand euros. The corresponding figure for the first quarter of 2011 was also 21 thousand euros. The remuneration of the members of the board of Nordecon AS, including social security charges, totalled 72 thousand euros. The figure for the comparative period was also 72 thousand euros.

Labour productivity and labour cost efficiency

In connection with rapid revenue growth, both the Group's labour productivity and labour cost efficiency have improved, year over year. Labour productivity and labour cost efficiency have improved also compared with the end of 2011.

In measuring its operating efficiency, the Group uses the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses paid:

	3M 2012	3M 2011	3M 2010	2011
Nominal labour productivity (rolling), (EUR'000)	206.4	138.7	126.9	202.3
Change against the comparative period	48.8%	9.3%	-33.4%	57.7%
Nominal labour cost efficiency (rolling), (EUR'000)	10.7	7.4	6.3	10.4
Change against the comparative period	43.6%	17.6%	-15.7%	51.6%

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

Members of the council and board of Nordecon AS

Council

The council has six members - two represent the controlling shareholder AS Nordic Contractors, one represents small shareholders and three 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) – 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 board or council for over 20 years. Besides construction companies, he has held senior positions at various other enterprises (AS Tallinna Kaubamaja, AS E-Betoonelement, OÜ Väokivi, AS Eesti Energia, etc). He is an active member of the community and has contributed to the development of the business environment, education and national defence. For over 15 years he has led the Estonian Chamber of Commerce and Industry and has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro-zone. Before Estonia joined the EU, Toomas Luman acted for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). 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 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), 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) and the badge of honour of the Estonian Chamber of Commerce and Industry (First 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)

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

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), Toidutark OÜ (board), Estonian Football Association, Pelgulinna Education Society, Nõmme Private Education Foundation

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 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, Estonian Academy of Arts (board of governors)

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

Ain Tromp – independent member

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

Board

According to the articles of association, the board has 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.

Changes on the board of Nordecon AS in 2012

In connection with the need to further streamline the Group's management structure and clarify governance of operating activities, on 30 April 2012 the council of Nordecon AS resolved to change the composition of the board. By the change, management of the core operating activities was reassigned from two board members to one. The council recalled from the board Marko Raudsik who was responsible for the Buildings division. Marko Raudsik will not continue working for Nordecon Group. Effective from 1 May 2012, all core operating activities are the responsibility of Erkki Suurorg who was previously responsible for the Infrastructure division. The Group's organisational structure was adjusted in line with the resolution. The council did not make any other changes to the composition of the board or the responsibilities of board 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 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 overall management of the parent company and Nordecon AS Group.

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

<u>Interests (exceeding 5%) in other companies:</u> 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's sales and pre-construction operations.

<u>Membership in the governing bodies of other organisations:</u> none

<u>Interests (exceeding 5%) in other companies:</u> 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.

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

<u>Interests (exceeding 5%) in other companies:</u> 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 [3]
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

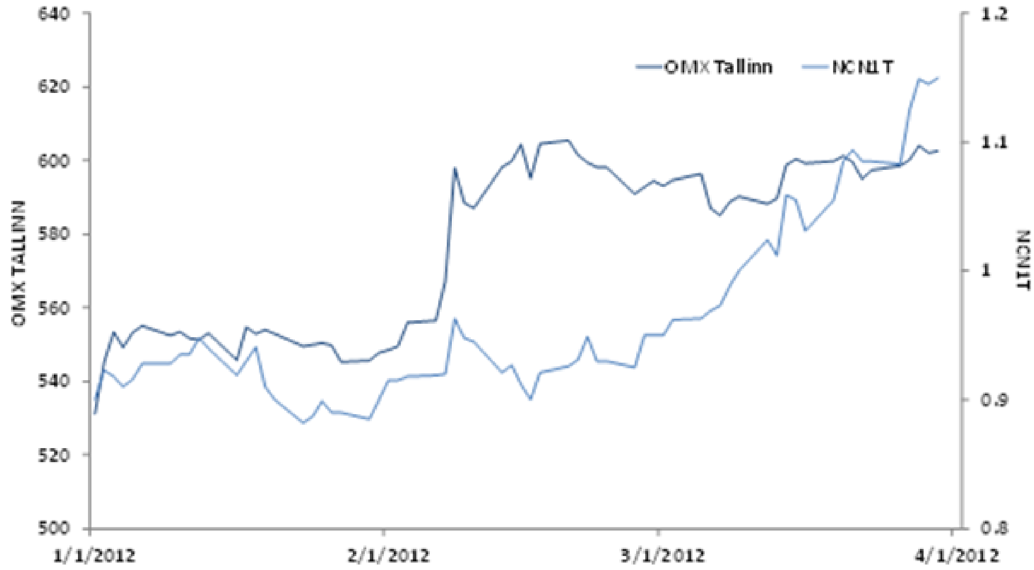
[3] In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares 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 meeting of Nordecon AS.

Movements in the price and turnover of the Nordecon AS share in the first quarter of 2012

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

Movement of the share price compared with the OMX Tallinn main index in the first quarter of 2012



Index/equity	1 Jan 2012	31 March 2012	+/-%
OMX Tallinn	531.17	602.62	+13.45
NCN1T	EUR 0.90	EUR 1.15	+27.78

Summarised trading results

Share trading history (EUR)

Price	3M 2012	3M 2011	3M 2010
Open	0.92	1.38	1.62
High	1.17	1.5	2.60
Low	0.88	1.25	1.60
Last closing price	1.15	1.36	1.92
Traded volume (number of securities traded)	984,673	1,378,703	2,014,452
Turnover, millions	0.94	1.96	4.23
Listed volume (31 March), thousands	30,757	30,757	30,757
Market capitalisation (31 March), millions	35.37	41.83	59.05

Shareholder structure

Largest shareholders of Nordecon AS at 31 March 2012

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab clients	2,563,614	8.34
ING Luxembourg S.A.	1,111,853	3.61
State Street Bank and Trust Omnibus Account A Fund	647,964	2.11
SEB Pank AS clients	639,362	2.08
Ain Tromp	578,960	1.88
ASM Investments OÜ	519,600	1.69
Luksusjaht AS	504,883	1.64
Aivo Kont	284,500	0.93
SEB Elu- ja pensionikindlustus AS	257,410	0.84

Shareholder structure of Nordecon AS by ownership interest at 31 March 2012

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	62.01
Shareholders with interest between 1% and 5%	6	9.40
Shareholders with interest below 1%	2,152	28.59
Total	**2,160**	**100.00**

Shares controlled by members of the council of Nordecon AS at 31 March 2012

Council		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)[4]	Chairman of the Council	16,574,144	53.89
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ)[4]	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		**17,722,704**	**57.62**

[4] Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 March 2012

Board		Number of shares	Ownership interest (%)
Jaano Vink	Chairman of the Board	37,921	0.12
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
Total		**70,243**	**0.23**

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

Processes and developments characterising the Estonian construction market in 2012

- According to our estimates, the construction market will not grow significantly in 2012. Infrastructure contracts will dominate but opportunities for certain market growth will be better in the building segment where recovery has been slower, assuming that private sector customers (including foreign investors) that abandoned the market in previous years will return. In new housing development, the success of a project will depend on the developer's ability to either offer a low cost or exploit a new niche. Consumer behaviour will remain highly volatile while banks will impose more stringent financing conditions.
- Total demand in the construction market will remain disproportionately reliant on public procurement contracts and projects executed with the support of the EU structural funds. The success of such projects is directly related to the administrative and procurement capabilities of the central and local government. Patchy procurement quality may cause hold-ups and disruptions both during the procurement proceedings and the construction process.
- Players will continue consolidating, particularly as regards general contractors in the segment of building construction, where competition is still overly aggressive. Bids made for contracts put out to tender in 2011 reflect that pricing pressure in the segment remains strong. In addition to competition, the number and business volumes of market participants will depend on their ability to participate in the bidding process and meet tendering requirements. In the execution phase, the decisive factors will be financial management (including relations with banks) and the ability to ensure sufficient liquidity, particularly when loss-generating contracts need to be performed.
- Companies may continue to challenge the results of poorly prepared public procurements but mostly on account of fundamental, not technical issues. Some procurements will be cancelled because customers have prepared their budgets based on the construction prices of 2009-2010 but in the current situation these are no longer realistic and construction companies' bids exceed them by tens of percents. The time and finance costs of the proceedings will be high for all involved.
- The contracts signed with public sector customers will impose rigorous conditions on construction companies, including greater obligations for the builder, strict sanctions, different financial guarantees, long settlement terms, etc. In a situation where the public procurement process is based on underbidding, this increases the risks of all market players.
- Growth in input prices will decelerate compared with the previous year, remaining within the range of a few percent (on a quarterly basis) throughout 2012. On the other hand, there are areas where price fluctuations are unpredictable and may be notably greater and hard or even impossible to influence (petroleum and metal products and some other materials).
- The situation in the labour market has somewhat stabilised and labour 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. On the whole, in 2012 the base wage paid by construction companies that have to maintain tight cost control is not expected to increase.
- In 2012 the construction market will be seriously and somewhat unpredictably impacted by massive funds raised from the sale of carbon dioxide emission quotas, which will be allocated within an extremely short period for improving the energy efficiency of buildings. This has already triggered demand hikes in some specialised segments of the construction market (joint filling, facade and roof works, installation of heating systems, etc) and unreasonable rises in respective prices, which will cause temporary problems for the entire sector.
- The volume of investments made in the construction sector by private investors will depend on the economic growth rate and forecasts made on the basis of the latter. According to economic statistics on 2011, in recent years all parties - companies, investors and banks have made decisions that have reduced private sector investments. In 2012 the volume of investments will not increase significantly, because in line with the current outlook economic growth has started to slow after a recovery that followed the slump of 2010 and consumer confidence remains low. The sovereign debt crisis is Europe has not been resolved either. On the other hand, investment may grow more vigorously in certain building and infrastructure sub-segments.

Latvia and Lithuania

According to the Group's assessment, the Latvian construction market will continue adjusting to the post-recession environment also in 2012. We do not exclude the possibility that in the next few years we will undertake some projects in Latvia through our Estonian entities, involving partners where necessary. Execution of project-based business assumes that the projects can be performed profitably. The decision does not change the Group's strategic objectives in Latvia, i.e. the objective of operating in the Latvian construction market through local subsidiaries.

For the time being, we have suspended the operations of our Lithuanian subsidiary, Nordecon Statyba UAB. We are monitoring market developments and do not rule out the possibility that in the next few years the Group will resume its Lithuanian operations on a project basis. Temporary suspension of operations does not cause any major costs for the Group and it does not change our strategic objectives in Lithuania, i.e. the objective of operating in the Lithuanian construction market through local subsidiaries.

Ukraine

The Group operates in Ukraine as a general contractor and project manager in the segment of commercial buildings and production facilities, offering its services primarily to foreign private sector customers. In the past three years, there have been practically no private sector customers in that segment. We do not believe that in 2012 there will be a significant increase in the activity of customers that interest us in the Ukrainian market. Maintaining minimal readiness at the current cost base, the Group has decided to continue its business in Ukraine until the end of 2012. We review the sustainability of our Ukrainian operations on a regular basis and will make a more definite decision regarding future steps in the autumn.

The main risks in the Ukrainian market stem from the low administrative efficiency of the central and local government and the judicial system. Ukraine's recovery from the economic crisis of 2008-2010 has been slow and achievement of political stability complicated. Demand continues to be undermined by private sector customers' pessimism about the political future of the country and lack of financing for commencing construction operations. To date private sector customers have not started investing in projects where the Group would have a competitive advantage.

The country with a population of around 46 million is facing some tough choices. Unfortunately the ongoing uncertainty is also increasing the risks of companies operating in the local construction market.

Finland

In the Finnish market the Group offers subcontracting services in the field of concrete works. This is an area where Estonian companies still have an edge over local entities because our total personnel expenses are lower. The Finnish concrete works (sub)contracting market allows us to compete for selected projects (the main criteria are the location and the customer's low risk level). We expect demand for concrete works to remain stable in 2012. Nevertheless, we will maintain a rational approach and will avoid taking excessive risks in Finland. We are not planning to penetrate other segments of the Finnish construction market (general contracting, project management, etc).

Description of the main risks

Business risks

The principal 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. In addition, in the region, where the Group operates, construction operations are influenced by seasonality caused by the change of seasons.

The Group acknowledges the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices are rising involves as high risk because the contract may quickly start generating a loss.

During the next years, the Estonian construction market will be heavily dependent on public sector investments, which consist largely of the support allocated from the EU structural funds. The availability of this support is relatively certain until 2013 (inclusive) when the current budget period ends. At present, we do not have detailed information on the structure of the budget for 2014-2020, but it is clear that the investments included in it will have a direct and significant impact on the business volumes of companies operating in the construction market.

The impacts of seasonality are the strongest in the Infrastructure segment where a lot of work is done outdoors (road and port construction, surface works, etc). In order to disperse the risks, the Group has secured road maintenance contracts that generate year-round business. According to its business strategy, the Group counteracts seasonal fluctuations in its infrastructure operations with building construction operations that are less exposed to seasonality. Consequently, the Group endeavours to keep the operating volumes of the two segments in balance (see also the chapter *Performance by business line*). In addition, Group companies consistently seek new technical solutions that would yield greater efficiency under changeable weather conditions.

Institution of criminal proceedings against Nordecon AS and a member of its board

On 25 September 2008, the Estonian Road Administration published a notice of the public procurement of services for the design and build of the E263 Aruvalla-Kose road section. Nordecon AS (at that date the Group's subsidiary Nordecon Infra AS) and Ramboll Eesti AS submitted a joint bid of 32.4 million euros.

The procurement gave rise to numerous challenges in the period 2008-2010. Owing to the challenges, the Road Administration decided to cancel the procurement but the public procurement dispute review committee declared the Road Administration's resolution for cancellation invalid. The procurement process reached the stage where the joint bid of Nordecon AS and Ramboll Eesti AS was selected as the successful one and only the contract needed to be signed. However, on 26 October 2010 the financial control department of the ministry of finance, exercising state supervision, declared the procurement process invalid on the basis that during the proceedings the Road Administration had repeatedly and seriously violated the Public Procurement Act.

Nordecon AS and Ramboll Eesti AS challenged the resolution of the financial control department of the ministry of finance in the administrative court and applied for preliminary legal protection that would have allowed moving on with the public procurement proceedings. The court did not apply preliminary legal protection although it found that the challenge had potential.

The security police board instituted criminal proceedings for investigation of circumstances surrounding the public procurement of services for the design and build of the Aruvalla-Kose road section. Member of the management board of Nordecon AS Erkki Suurorg and Nordecon AS (at the time Nordecon Infra AS) were charged with suspicion of attempting to conclude an agreement for distorting competition. Suspicion charges were also brought against the director general of the Road Administration and the chancellor of the ministry of economics. Nordecon AS and Erkki Suurorg have given their testimony to the security police board and have affirmed that the charges against them are baseless. By the date of release of this report, no criminal charges have been filed against any of the suspects.

If criminal charges are brought and a conviction takes effect, then under section 400 of the Penal Code the maximum pecuniary punishment for Nordecon AS may extend to 10% of turnover and for a time the company may not be allowed to tender for public procurement contracts.

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 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. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranties provisions based on their historical experience. At 31 March 2012, the Group's warranties provisions (including current and non-current ones) totalled 1,153 thousand euros. At 31 March 2011, the corresponding figure was 1,192 thousand euros.

In addition to managing the risks, which are directly related to construction operations, in recent years the Group has sought to mitigate also those operational risks that are inherent in preliminary activities. In particular, we have focused on the bidding process, i.e. the Group's compliance with the procurement terms and conditions and budgeting. Any errors made in the planning stage are generally irreversible and, in a situation where the price is contractually fixed, may result in a direct financial loss.

Financial risks

Credit risk

Despite continued uncertainty, the Group did not have to recognise any significant credit losses. The credit risk exposure of the Group's receivables continues to be low because the proportion of public sector customers that receive their financing from the state and local government as well as the EU structural funds is high. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days coupled with no activity on the part of the debtor that would confirm the intent to settle.

In the first quarter of 2012, the Group recognised credit losses of 4 thousand euros (Q1 2011: 2 thousand euros).

Liquidity risk

The Group remains exposed to higher than average liquidity risk resulting from a mismatch between the long settlement terms demanded by customers (mostly 45 to 56 days) and increasingly shorter settlement terms negotiated by subcontractors (mostly 21 to 45 days). The Group counteracts the differences in settlement terms by using factoring where possible.

The Group continues to work with the banks in implementing its financing program for 2011-2014, which was developed in 2011 with the assistance of one of the world's leading consulting firms (Roland Berger Strategy Consultants). In line with the program, the banks will support the Group's liquidity position by refinancing long-term loans and by granting repayment holidays for loan principal (for 2011-2012 with the option to extend the repayment holiday for 2013). Where necessary, the banks will support the Group with additional short-term loans. At the end of the reporting period, the Group had received loans of this kind of 3.1 million euros.

At 31 March 2012, the Group's current assets exceeded its current liabilities 1.07-fold (31 March 2011: 1.36-fold). Bank loans make up a significant proportion of current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on the (contractual) conditions effective at the reporting date. Although management believes that it is likely that the Group's overdraft liabilities and other short-term bank loans will be refinanced for another 12 months, relevant decisions will be made in the next quarters of 2012. Therefore, at the reporting date the loan commitments constituted short-term liabilities. According to the Group's estimates, current liabilities include loans of 10,510 thousand euros that will probably be refinanced in 2012. If the current ratio were adjusted accordingly, it would be 1.31.

At the reporting date, the Group's cash and cash equivalents totalled 5,385 thousand euros (31 March 2011: 2,303 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 floating interest rates is mostly Euribor. At 31 March 2012, the Group's interest-bearing loans and borrowings totalled 29,076 thousand euros, a decrease of 1,285 thousand euros year-over-year. Interest expense for the first quarter of 2012 amounted to 993 thousand euros. Compared with the first quarter of 2011, interest expense has decreased by 3 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 weak operating cash flow. The first risk factor is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates. Realisation of the second risk factor depends on the success of operating activities.

In recent years, banks and leasing companies have been increasingly interested in charging a floating interest rate. This increases the Group's exposure to additional finance costs that may result from a rise in the base interest rate. Meanwhile, the Group's loan liabilities have decreased and the trend is likely to continue in subsequent years. This curbs the potential negative impact of a rise in the base interest rate on the Group's interest-related cash flows. The Group has not acquired any derivatives for hedging the risks arising from instruments with a floating interest rate.

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) and in Ukrainian hryvnas (UAH). From the beginning of 2012 the Group is not exposed to currency risks related to the Belarusian ruble (BYR) because the Group has practically discontinued its operations in Belarus.

The exchange rate of the Ukrainian hryvna against the euro has been stable since 2010. In the first quarter of 2012, fluctuations in the euro-hryvna exchange rate remained below 5%. The Group's foreign exchange gains and losses for the first quarter of 2012 resulted in a net exchange gain of 91 thousand euros (Q1 2011: 140 thousand euros).

In connection with suspension of operations in Lithuania, currency risks related to that country are not relevant. Since Estonia's adoption of the euro at the beginning of 2011, the Group's Finnish operations do not involve a currency risk. Currency risk is also reduced by the fact that the prices of materials and services that the Group's Estonian entities purchase from abroad are mostly denominated in euros.

The Group has not acquired any derivatives to hedge its currency risks.

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		10 May 2012
Avo Ambur	Member of the Board		10 May 2012
Erkki Suurorg	Member of the Board		10 May 2012

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	31 March 2012	31 December 2011
ASSETS			
Current assets			
Cash and cash equivalents		5,385	9,908
Trade and other receivables	2	28,274	34,645
Prepayments		2,661	2,610
Inventories	3	24,154	24,120
Non-current assets held for sale		0	242
Total current assets		**60,474**	**71,525**
Non-current assets			
Investments in equity-accounted investees		191	199
Other investments		26	26
Trade and other receivables	2	2,338	2,504
Investment property		4,930	4,930
Property, plant and equipment	4	7,534	7,437
Intangible assets	4	14,934	14,960
Total non-current assets		**29,953**	**30,056**
TOTAL ASSETS		**90,427**	**101,581**
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	23,466	19,130
Trade payables		19,161	27,403
Other payables		3,583	4,930
Deferred income		9,998	10,587
Provisions		388	485
Total current liabilities		**56,596**	**62,535**
Non-current liabilities			
Loans and borrowings	5, 6	5,610,	9,513
Trade payables		199	199
Other payables		96	96
Provisions		876	841
Total non-current liabilities		**6,781**	**10,649**
TOTAL LIABILITIES		**63,377**	**73,184**
EQUITY			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		-402	-463
Retained earnings		3,199	4,563
Total equity attributable to equity holders of the parent		**25,008**	**26,311**
Non-controlling interest		**2,042**	**2,086**
TOTAL EQUITY		**27,050**	**28,397**
TOTAL LIABILITIES AND EQUITY		**90,427**	**101,581**

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	3M 2012	3M 2011	2011
Revenue	8, 9	22,475	17,723	147,802
Cost of sales	10	-22,439	-17,796	-147,608
Gross profit/loss		**36**	**-73**	**194**
Distribution expenses		-76	-96	-317
Administrative expenses	11	-1,230	-1,067	-4,641
Other operating income	12	113	226	806
Other operating expenses	12	-88	-106	-672
Operating loss		**-1,245**	**-1,116**	**-4,630**
Finance income	13	145	183	938
Finance expenses	13	-284	-305	-1,086
Net finance expense		**-139**	**-122**	**-148**
Share of loss/profit of equity-accounted investees		-24	0	100
Loss before income tax		**-1,408**	**-1,238**	**-4,678**
Income tax income/expense		0	4	-30
Loss for the period		**-1,408**	**-1,234**	**-4,708**
Other comprehensive income/expense:				
Exchange differences on translating foreign operations		61	115	-329
Total other comprehensive income/expense for the period		**61**	**115**	**-329**
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD		**-1,347**	**-1,119**	**-5,037**
Profit/loss attributable to:				
- Owners of the parent		-1,364	-1,177	-5,304
- Non-controlling interests		-44	-57	596
Loss for the period		**-1,408**	**-1,234**	**-4,708**
Total comprehensive income/expense attributable to:				
- Owners of the parent		-1,303	-1,090	-5,924
- Non-controlling interests		-44	-29	887
Total comprehensive expense		**-1,347**	**-1,119**	**-5,037**
Earnings per share attributable to owners of the parent:				
Basic earnings per share (EUR)	7	-0.04	-0.04	-0.17
Diluted earnings per share (EUR)	7	-0.04	-0.04	-0.17

Condensed consolidated interim statement of cash flows

EUR '000	Note	3M 2012	3M 2011
Cash flows from operating activities			
Cash receipts from customers[1]		33,481	21,774
Cash paid to suppliers[2]		-31,652	-20,525
VAT paid		-1,558	-372
Cash paid to and for employees		-4,073	-2,853
Income tax paid		-12	-1
Net cash used in operating activities		**-3,814**	**-1,977**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-288	-6
Proceeds from sale of property, plant and equipment and intangible assets	4	128	277
Loans granted		-294	-39
Repayment of loans granted		9	13
Interest received		0	3
Net cash used in/from investing activities		**-445**	**248**
Cash flows from financing activities			
Proceeds from loans received		1,503	163
Repayment of loans received		-851	-1,164
Payment of finance lease liabilities		-605	-493
Interest paid		-310	-289
Net cash used in financing activities		**-263**	**-1,783**
Net cash flow		**-4,522**	**-3,512**
Cash and cash equivalents at beginning of period		**9,908**	**5,818**
Effect of exchange rate fluctuations		-1	-3
Decrease in cash and cash equivalents		-4,522	-3,512
Cash and cash equivalents at end of period		**5,385**	**2,303**

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

[2] Line item *Cash paid to suppliers* includes the VAT paid to the suppliers.

Condensed consolidated interim statement of changes in equity

EUR '000	Equity attributable to equity holders of the parent						
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 31 December 2010	**19,657**	**2,558**	**-233**	**10,257**	**32,240**	**1,199**	**33,439**
Loss for the period	0	0	0	-1,177	-1,177	-57	-1,234
Other comprehensive income	0	0	87	0	87	28	115
Increase of capital reserve	0	-3	0	0	-3	0	-3
Balance at 31 March 2011	**19,657**	**2,555**	**-146**	**9,081**	**31,147**	**1,170**	**32,317**
Balance at 31 December 2011	**19,657**	**2,554**	**-463**	**4,563**	**26,311**	**2,086**	**28,397**
Loss for the period	0	0	0	-1,364	-1,364	-44	-1,408
Other comprehensive income	0	0	61	0	61	0	61
Balance at 31 March 2012	**19,657**	**2,554**	**-402**	**3,199**	**25,008**	**2,042**	**27,050**

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 three months ended 31 March 2012 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 2011.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2011. 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 first quarter and three months of 2012 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 that are not relevant for the Group on the preparation of the interim financial statements:

- *Amendments to IFRS 7 Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011)

  The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

  Because of the nature of the Group's operations and the types of financial assets that it holds, the Group does not expect the amendments to IFRS 7 to have a significant effect on its consolidated financial statements.

NOTE 2. Trade and other receivables

EUR '000	Note	31 March 2012	31 December 2011
Current portion			
Trade receivables		9,555	14,783
Retentions receivable		1,865	2,544
Receivables from related parties		996	982
Loans to related parties	14	8,721	8,150
Miscellaneous receivables		1,087	1,057
Total receivables and loans granted		**22,224**	**27,516**
Due from customers for contract work		6,050	7,129
Total trade and other receivables		**28,274**	**34,645**

Trade receivables have decreased principally on account of a decrease in operations compared with the end of 2011.

EUR '000	Note	31 March 2012	31 December 2011
Non-current portion			
Loans to related parties	14	1,953	2,117
Miscellaneous receivables		385	387
Total trade and other receivables		**2,338**	**2,504**

NOTE 3. Inventories

EUR '000	31 March 2012	31 December 2011
Raw and other materials	3,000	3,120
Work in progress	5,719	5,330
Finished goods	2,022	2,407
Properties purchased for sale and development	13,413	13,263
Total inventories	**24,154**	**24,120**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first quarter of 2012, the Group did not perform any major transactions with items of property, plant and equipment. Additions of property, plant and equipment totalled 723 thousand euros and consisted of equipment and construction machinery required for the Group's business (including investments made in a new asphalt plant, which will begin operating in summer 2012). In addition, the Group transferred to property, plant and equipment assets of 242 thousand euros, which at 31 December 2011 were classified as non-current assets held for sale.

Cash proceeds from the sale of property, plant and equipment totalled 128 thousand euros (see statement of cash flows) and sales gain amounted to 100 thousand euros (see note 12).

Intangible assets

In the first quarter of 2012, the Group did not perform any major transactions with intangible assets. The carrying amount of intangible assets has decreased compared with 31 December 2011 through amortisation.

NOTE 5. Finance and operating leases

EUR '000	31 March 2012	31 December 2011
Finance lease liabilities at end of reporting period	**2,581**	**2,934**
Of which payable in less than 1 year	1,479	1,670
Of which payable between 1 and 5 years	1,102	1,264
Base currency EUR	2,581	2,934
Interest rates of contracts denominated in EUR[3]	2.0%-7.0%	2.0%-7.0%
Periodicity of payments	Monthly	Monthly

[3] Including leases with floating interest rates

Finance lease payments made, EUR '000	3M 2012	3M 2011
Principal payments made during the period	605	494
Interest payments made during the period	40	34

Operating lease payments made, EUR '000	3M 2012	3M 2011
Payments made for cars	156	164
Payments made for construction equipment	313	632
Payments made for premises	166	119
Payments made for software	114	87
Total operating lease payments made	**749**	**1,002**

NOTE 6. Interest-bearing loans and borrowings

Short-term loans and borrowings

EUR '000	Note	31 March 2012	31 December 2011
Short-term portion of long-term bank loans		9,955	6,996
Short-term portion of finance lease liabilities	5	1,479	1,670
Short-term bank loans		10,723	9,288
Factoring liabilities		1,309	1,176
Total short-term loans and borrowings		**23,466**	**19,130**

Long-term loans and borrowings

EUR '000	Note	31 March 2012	31 December 2011
Long-term portion of bank loans		3,524	7,265
Long-term portion of finance lease-liabilities	5	1,102	1,264
Other long-term loans		984	984
Total long-term loans and borrowings		**5,610**	**9,513**

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.

EUR '000	3M 2012	3M 2011
Loss for the period attributable to owners of the parent	-1,364	-1,177
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share	-0.04	-0.04
Diluted earnings per share	-0.04	-0.04

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

NOTE 8. 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 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.

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 on preparing segment reporting.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the profit of an operating segment (including distribution and administrative expenses, interest expense, 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.

Q1

EUR '000 Q1 2012	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	11,843	100	9,978	497	22,418
Inter-segment revenue	0	-78	-5	-220	-303
Revenue from external customers	**11,843**	**22**	**9,973**	**277**	**22,115**
Segment profit/loss	**948**	**-14**	**-678**	**-182**	**74**

EUR '000 Q1 2011	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	9,715	976	8,402	1,939	21,032
Inter-segment revenue	-1,967	0	-13	-1,583	-3,563
Revenue from external customers	**7,748**	**976**	**8,389**	**356**	**17,469**
Segment profit/loss	**1,064**	**338**	**-978**	**-119**	**305**

Reconciliation of segment revenues

EUR '000	3M 2012	3M 2011
Total revenues for reportable segments	21,921	19,093
Revenue for other segments	497	1,939
Elimination of inter-segment revenues	-303	-3,563
Unallocated revenue	360	254
Total consolidated revenue	**22,475**	**17,723**

Reconciliation of segment profit

EUR '000	3M 2012	3M 2011
Total profit for reportable segments	256	424
Total loss for other segments	-182	-119
Elimination of inter-segment profits	-4	-5
Unallocated losses	-34	-373
Total gross profit/loss	**36**	**-73**
Unallocated expenses:		
Distribution expenses	-76	-96
Administrative expenses	-1,230	-1,067
Other operating income	25	120
Consolidated operating loss	**-1,245**	**-1,116**
Finance income	145	183
Finance expenses	-284	-305
Share of loss of equity-accounted investees	-24	0
Consolidated loss before tax	**-1,408**	**-1,238**

NOTE 9. Segment reporting – geographical information

EUR '000	3M 2012	3M 2011
Estonia	22,097	16,224
Ukraine	100	40
Belarus	0	936
Finland	356	536
Inter-segment eliminations	-78	-13
Total revenue	**22,475**	**17,723**

NOTE 10. Cost of sales

EUR '000	3M 2012	3M 2011
Cost of materials, goods and services used	19,239	14,590
Personnel expenses	2,643	2,565
Depreciation and amortisation expense	505	585
Other expenses	52	56
Total cost of sales	**22,439**	**17,796**

NOTE 11. Administrative expenses

EUR '000	3M 2012	3M 2011
Cost of materials, goods and services used	602	471
Personnel expenses	504	511
Depreciation and amortisation expense	93	47
Other expenses	31	38
Total administrative expenses	**1,230**	**1,067**

NOTE 12. Other operating income and other operating expenses

EUR '000	3M 2012	3M 2011
Other operating income		
Gains on sale of property, plant and equipment and intangible assets	100	213
Other income	13	13
Total other operating income	**113**	**226**

EUR '000	3M 2012	3M 2011
Other operating expenses		
Losses on write-off of property, plant and equipment and intangible assets	24	1
Foreign exchange losses	56	85
Impairment losses on receivables	4	2
Other expenses	4	18
Total other operating expenses	**88**	**106**

NOTE 13. Finance income and finance expenses

EUR '000	3M 2012	3M 2011
Finance income		
Interest income on loans	142	173
Other finance income	3	10
Total finance income	**145**	**183**

EUR '000	3M 2012	3M 2011
Finance expenses		
Interest expense	247	250
Foreign exchange losses	35	55
Other finance expenses	2	0
Total finance expenses	**284**	**305**

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 connected with 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:

EUR '000		3M 2012		3M 2011
Volume of transactions performed	**Purchase**	**Sale**	**Purchase**	**Sale**
AS Nordic Contractors	76	1	86	2
Companies of AS Nordic Contractors group	8	1	379	437
Companies connected with a member of the council	18	0	18	0
Total	**102**	**2**	**483**	**439**

EUR '000		3M 2012		3M 2011
Nature of transactions performed	**Purchase**	**Sale**	**Purchase**	**Sale**
Construction services	21	0	379	436
Lease and other services	81	2	104	3
Total	**102**	**2**	**483**	**439**

During the reporting period, the Group recognised interest income on loans to associates of 117 thousand euros (Q1 2011: 111 thousand euros) and interest income on loans to joint ventures of 27 thousand euros (Q1 2011: 26 thousand euros).

Receivables from and liabilities to related parties at period-end

EUR '000	31 March 2012 Receivables	31 March 2012 Payables	31 December 2011 Receivables	31 December 2011 Payables
AS Nordic Contractors	1	10	1	42
AS Nordic Contractors group - receivables	2	0	1	0
Associates - receivables	993	1	980	0
Associates – loans and interest	8,900	0	8,528	0
Joint ventures – loans and interest	1,774	0	1,739	0
Total	**11,670**	**11**	**11,249**	**42**

The remuneration of the members of the council of Nordecon AS for the first quarter of 2012, including associated social security charges, amounted to 21 thousand euros. The corresponding figure for the first quarter of 2011 was also 21 thousand euros. The remuneration of the members of the board of Nordecon AS, including social security charges, totalled 72 thousand euros. The figure for the comparative period was also 72 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 as at and for the three months ended 31 March 2012 and confirms that:

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

Jaano Vink	Chairman of the Board	10 May 2012
Avo Ambur	Member of the Board	10 May 2012
Erkki Suurorg	Member of the Board	10 May 2012