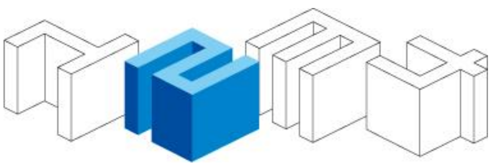
NORDECON

Financial report for the second quarter and six months of 2012
(unaudited)



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(unaudited)

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
Domicile	Republic of Estonia
Telephone	+ 372 615 4400
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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 – 30 June 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 in the forthcoming years (applies also to 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 from 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 half of 2012

Changes in the Group's Estonian operations

There were no changes in the Group's Estonian operations in the first half-year. The Group continued to operate in the buildings 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, Nordecon AS, which continued to act as a holding company for the Group's main subsidiaries. In addition to the parent, construction 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), leasing 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 half of 2012, our Belarusian subsidiary Eurocon Stroi IOOO completed its only remaining contract. To date, 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 release 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.

We have 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. However, owing to the 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, we may have to revise our current action plan for the Ukrainian market.

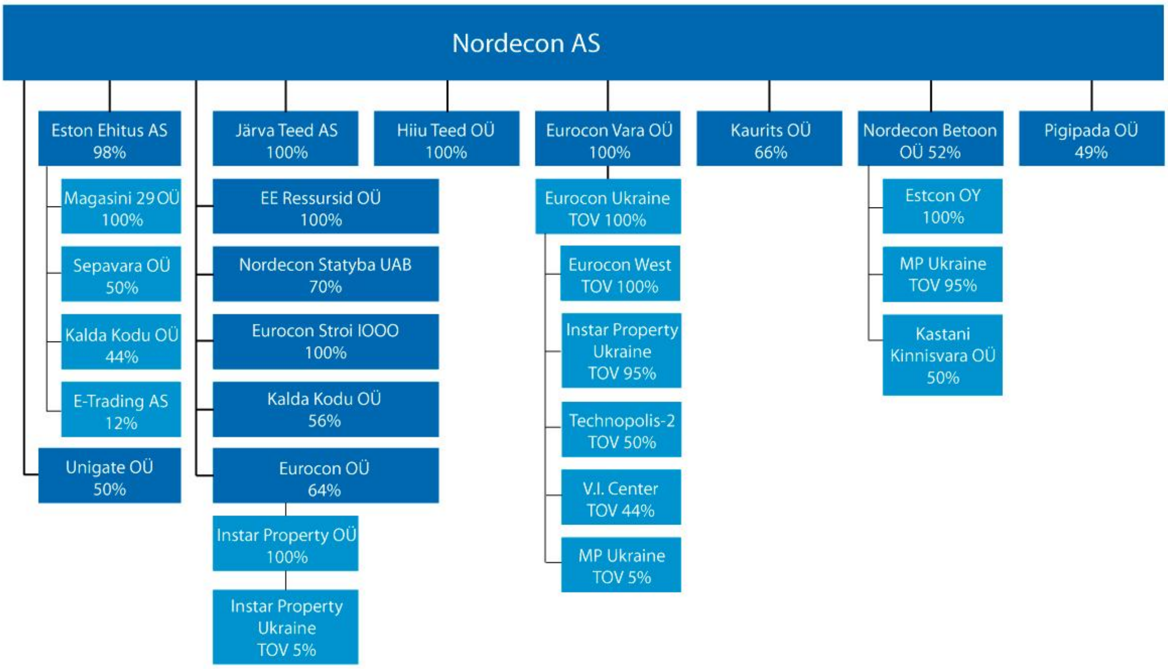
Real estate development projects that require extensive investment (the Group has an interest in two conserved development projects) remain suspended to minimise the risks until the situation in Ukraine becomes clearer. To secure the investment, the Group and its co-owners have started privatising the land of the V.I. Center TOV development project. 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 30 June 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.

Significant changes in the Group's structure

There were no changes in the Group's structure in the first half of 2012.

Financial review

Financial performance

Nordecon Group ended the first six months of 2012 with a gross profit of 2,188 thousand euros (HY1 2011: a gross loss of 1,428 thousand euros). Most of the profit was earned in the second quarter that was not undermined by adverse weather conditions and the fixed costs of a technological standstill, which impacted the first quarter. Moreover, compared with 2011 there were no losses from contracts secured in 2009-2010.

The main factors that helped restore operational profitability were Group-wide austerity measures enforced in 2010 due to market slump, internal restructuring, and streamlining of processes and operations. Although volume growth, which emerged in 2011, has clearly improved the situation in the Estonian construction market, we will have to continue working hard to maintain and enhance the results achieved and to counteract threats to profitability. Margins are still below target but we believe that we are moving in the right direction to improve operational profitability compared with 2011. Current estimates of the outcomes of contracts included in the Group's order book support that view. It should also 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 of long-term contracts are recorded gradually over the contract term.

The rise in profitability has also been underpinned by changes in the competitive environment. According to our 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 leaving 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 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 risks to profitability still persist.

Administrative expenses for the first half of 2012 totalled 2,504 thousand euros including non-recurring consulting fees incurred to adjust the Group's strategy to the changing environment. The ratio of administrative expenses to revenue was 4.0% (HY1 2011: 3.9%). The Group's cost-control measures are yielding strong results and we believe that on a whole-year basis we can maintain administrative expenses below the target ceiling, i.e. 5% of revenue. An indicator of effective cost management is the fact that despite growing volumes the 12-month rolling average ratio of administrative expenses to revenue was 3.2% (HY1 2011: 4.1%).

The Group's operating loss for the first half-year was 197 thousand euros (HY1 2011: 3,501 thousand euros). EBITDA was positive at 925 thousand euros (HY1 2011: negative at 2,278 thousand euros).

The Group ended the first half of 2012 with net loss of 390 thousand euros. The loss attributable to owners of the parent, Nordecon AS, was 491 thousand euros. The first half of 2011 ended in a net loss of 3,716 thousand euros and the loss attributable to owners of the parent was 3,652 thousand euros.

Cash flows

In the first half of 2012 operating activities resulted in a net cash outflow of 7,081 thousand euros (HY1 2011: a net inflow of 1,846 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 half of 2012, a significant amount of construction services was purchased from abroad without the possibility of recovering input VAT but on the resale of the services in Estonia VAT had to be paid. In the previous year, operating activities gave rise to prepaid VAT, which was used to offset labour tax liabilities. In the first half 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 while suppliers generally have to be paid within 21 to 45 days. The Group counteracted cyclical fluctuations with factoring and overdraft facilities for working capital. The effect of difference in settlement terms should become positive in the second half-year when construction volumes (cash outlays) decrease and the Group starts receiving cash for work done during the earlier active construction months (May to June).

Cash flows from investing activities resulted in a net outflow of 830 thousand euros (HY1 2011: a net inflow of 1,996 thousand euros). The main reasons for the net outflow were loans granted to associates and payments made for property, plant and equipment (including prepayments for a new asphalt plant). In the comparative period, net cash flow from investing activities was positive on account of settlement of loans granted.

Financing activities resulted in a net cash inflow of 3,335 thousand euros (HY1 2011: a net outflow of 2,994 thousand euros). A major proportion of cash flows from financing activities resulted from use of overdraft facilities for raising sufficient working capital. The Group's cash outflows from financing activities have stabilised thanks to agreements reached with the banks regarding repayment holidays and extension of loan agreements. The amendment of agreements did not cause any major change in the Group's interest rates.

At 30 June 2012, the Group's cash and cash equivalents totalled 5,332 thousand euros (30 June 2011: 6,343 thousand euros). Management's comments on potential liquidity risk are presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	6M 2012	6M 2011	6M 2010	2011
Revenue (EUR'000)	62,920	54,429	37,401	147,802
Revenue growth/decrease, %	16%	46%	-52%	49%
Net loss (EUR'000)	-390	-3,716	-4,175	-4,708
Loss attributable to owners of the parent (EUR'000)	-491	-3,652	-3,788	-5,304
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	-0.02	-0.12	-0.12	-0.17
Administrative expenses to revenue, %	4.0%	3.9%	6.1%	3.1%
Administrative expenses to revenue (rolling)	3.2%	4.1%	5.4%	3.1%
EBITDA (EUR'000)	925	-2,278	-3,718	-1,819
EBITDA margin, %	1.5%	-4.2%	-9.9%	-1.2%
Gross margin, %	3.5%	-2.6%	-7.7%	0.1%
Operating margin, %	-0.3%	-6.4%	-14.6%	-3.1%
Operating margin excluding gains on asset sales, %	-0.7%	-6.8%	-14.6%	-3.5%
Net margin, %	-0.6%	-6.8%	-11.2%	-3.2%
Return on invested capital, %	0.3%	-5.0%	-5.0%	-5.9%
Return on equity, %	-1.4%	-11.7%	-9.6%	-15.2%
Equity ratio, %	25.0%	26.8%	38.2%	28.0%
Gearing, %	48.5%	40.8%	25.2%	32.8%
Current ratio	1.05	1.19	1.53	1.14

	30 June 2012	30 June 2011	30 June 2010	31 Dec 2011
Order book (EUR'000)	166,367	140,234	89,440	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 half of 2012, roughly 1% of the Group's revenue was generated outside Estonia. In the first half of 2011, foreign operations accounted for 4% of the Group's revenue.

	6M 2012	6M 2011	6M 2010	2011
Estonia	99%	96%	94%	97%
Ukraine	0%	0%	6%	0%
Belarus	0%	3%	0%	1%
Finland	1%	1%	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 half of 2012*). Finnish revenues comprise revenue from rendering subcontracting services in the concrete works sector. We expect the contribution of foreign markets to remain at a similar level 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 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 half of 2012 was 62,920 thousand euros, 16% up on the 54,429 thousand euros generated in the first half 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

In the first half of 2012, the revenues of our two main operating segments were practically equal. The contribution of the Infrastructure segment was slightly larger and should remain so also the second half of the year. The Buildings segment ended the first half of 2012 with revenue of 28,508 thousand euros and the Infrastructure segment with revenue of 32,766 thousand euros. The corresponding figures for the comparative period were 25,704 thousand euros and 27,402 thousand euros (see note 8).

For a long time, the bulk of the work in the construction market has been related to infrastructure assets (mostly projects financed with the support of the state and the EU structural funds) and the majority (69%) of contracts in the Group's order book belong to the Infrastructure segment. Despite this, the segments' revenues have been more or less equal because the present 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.

Revenue distribution between segments[2]

Operating segments	6M 2012	6M 2011	6M 2010	2011
Buildings	46%	46%	46%	48%
Infrastructure	54%	54%	54%	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. Compared with a year ago, the relative importance of public buildings decreased because the contributions of other sub-segments (primarily commercial buildings) increased. The segment's largest project was the construction of the Ämari Air Base, which to date has been substantially completed.

In 2011 the economic environment improved, triggering certain recovery in the commercial buildings and industrial and warehouse facilities sub-segments, where private sector investments increased. Growth was particularly visible in the commercial buildings sub-segment, where the Group started the construction of four new buildings. A major share of the revenue of the industrial and warehouse facilities sub-segment resulted from buildings constructed for the agricultural sector. However, compared with a year ago, their proportion decreased and despite growth in private sector investments the sub-segment's volumes declined. 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	6M 2012	6M 2011	6M 2010	2011
Commercial buildings	19%	6%	26%	12%
Industrial and warehouse facilities	28%	38%	21%	40%
Public buildings	49%	54%	38%	45%
Apartment buildings	4%	2%	15%	3%

As expected, by the end of the first half-year the main revenue contributor in the Infrastructure segment was road construction and maintenance. In the second half-year, its relative importance should increase even further in connection with the construction of the Tartu western bypass and eastern ring road, which were secured in the reporting period. Similarly to preceding periods, a major share of the revenue of the Infrastructure segment resulted from the construction of water and wastewater networks financed with the support of the EU structural funds (other engineering). The contribution of other engineering should remain stable in the second half-year. 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 the bio-filter for the wastewater treatment plant of Tallinn, which was in progress in the first half of 2011.

Revenue distribution within the Infrastructure segment	6M 2012	6M 2011	6M 2010	2011
Road construction and maintenance	40%	46%	65%	47%
Specialist engineering (including hydraulic engineering)	16%	1%	1%	10%
Other engineering	38%	37%	26%	35%
Environmental engineering	6%	16%	8%	8%

Order book

At 30 June 2012, our order book stood at 166,367 thousand euros, being 19% larger than a year ago. 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, Tartu western bypass and eastern ring road, etc) since the second quarter of 2011.

	30 June 2012	30 June 2011	30 June 2010	2011
Order book (EUR'000)	166,367	140,234	89,440	134,043

At 69% the Infrastructure segment continues to account for a major share of the total order book (30 June 2011: 72%).

Between the reporting date (30 June 2012) and the date of release of this report, Group companies have been awarded construction contracts of approximately 15,569 thousand euros.

People

Staff and personnel expenses

In the first half of 2012, the Group (the parent and the subsidiaries) employed, on average, 771 people including 371 engineers and technical personnel (ETP). In connection with growth in the Group's operating volumes in 2012, both the number ETP and the number of workers have increased year over year. Due to the seasonal nature of construction activity, at the reporting date the number of staff was expectedly larger than at the end of the previous financial year.

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

	6M 2012	6M 2011	6M 2010	2011
ETP	371	352	362	351
Workers	400	379	435	380
Total average	**771**	**731**	**797**	**731**

The Group's personnel expenses for the first half of 2012 including all taxes totalled 7,143 thousand euros, 8% up on the first half of 2011 when personnel expenses were 6,602 thousand euros. The growth in personnel expenses is mainly attributable to growth in the number of staff.

The remuneration of the members of the council of Nordecon AS for the first half of 2012, including associated social security charges, amounted to 94 thousand euros. The corresponding figure for the first half of 2011 was 50 thousand euros. The amount has increased in connection with the decision of Nordecon AS's annual general meeting to increase the remuneration of the council as from 2012. The remuneration of the members of the board of Nordecon AS, including social security charges, totalled 196 thousand euros. The figure for the comparative period was 143 thousand euros. The figure increased due to the termination benefits paid to the member of the board who was recalled in May 2012.

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

	6M 2012	6M 2011	6M 2010	2011
Nominal labour productivity (rolling), (EUR'000)	208.6	155.9	124.8	202.3
Change against the comparative period, %	33.8%	25.0%	-25.8%	57.7%
Nominal labour cost efficiency (rolling), (EUR'000)	10.6	8.2	6.3	10.4
Change against the comparative period, %	29.1%	30.9%	-11.7%	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. 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 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 (according to the corporate governance recommendations (CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange)

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 (according to the corporate governance recommendations (CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange)

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 – representative of small shareholders/independent member (according to the corporate governance recommendations (CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange)

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.

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

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's sales and pre-construction operations.

Membership in the governing bodies of other organisations: none

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[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

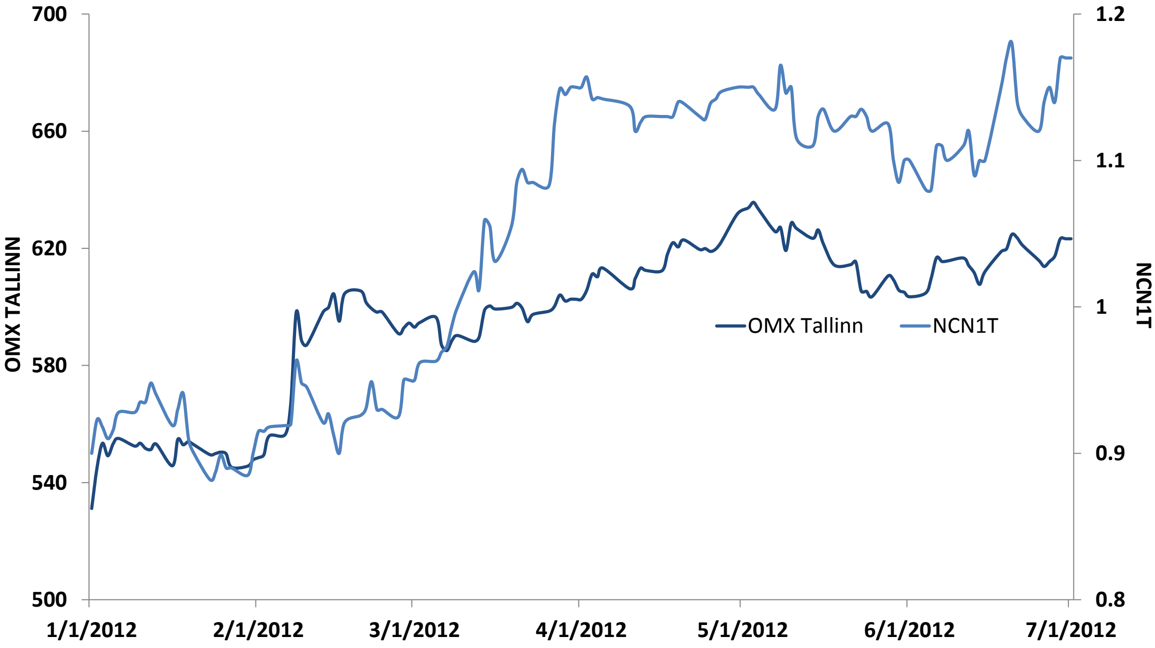
[3] In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted 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 half 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 half of 2012



Index/equity	1 January 2012	30 June 2012	+/-%
OMX Tallinn	531.17	623.26	+17.34
NCN1T	EUR 0.90	EUR 1.17	+30.00

Summarised trading results

Share trading history

Price (EUR)	6M 2012	6M 2011	6M 2010
Open	0.92	1.38	1.62
High	1.18	1.5	2.60
Low	0.88	1.22	1.34
Last closing price	1.17	1.29	1.40
Traded volume (number of securities traded)	2,060,558	2,264,140	3,161,382
Turnover, millions	2.15	3.10	6.26
Listed volume (30 June), thousands	30,757	30,757	30,757
Market capitalisation (30 June), millions	35.99	39.68	43.07

Shareholder structure

Largest shareholders of Nordecon AS at 30 June 2012

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab clients	2,263,614	7.36
ING Luxembourg S.A.	1,415,423	4.60
Luksusjaht AS	1,126,964	3.66
SEB Pank AS clients	618,762	2.01
State Street Bank and Trust Omnibus Account A Fund	597,464	1.94
Ain Tromp	578,960	1.88
ASM Investments OÜ	519,600	1.69
Aivo Kont	274,300	0.89
SEB Elu- ja pensionikindlustus AS	262,700	0.85

Shareholder structure of Nordecon AS by ownership interest at 30 June 2012

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	61.03
Shareholders with interest between 1% and 5%	6	15.79
Shareholders with interest below 1%	2,046	23.18
Total	**2,054**	**100**

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

- We do not expect the construction market to grow significantly in 2012. Infrastructure contracts will dominate but opportunities for certain market growth will be better in the buildings segment where recovery has been slower, assuming that private sector customers (including foreign ones) that abandoned the market in prior years will return. In 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. The banks' financing terms will remain stringent.
- Total demand in the construction market will remain disproportionately reliant on public procurement and projects executed with the support of the EU structural funds. In the second half of 2012 the volume of new procurement contracts will start decreasing because the current EU budget period (2013/2014) is coming to an end and co-financing terms require that a project should be completed during the budget period. Anticipation of shrinkage in public sector investments from 2013 will intensify competition and will put pressure on construction companies' profit expectations. Uncertainty about the future is increased by lack of information about the investment volumes of the next EU budget period.
- Players will continue consolidating, particularly general contractors in building construction, where competition is still overaggressive. The tenders of 2012 reflect that pricing pressure in the segment is strong. Besides competition, the number and business volumes of market participants will depend on their ability to participate in the bidding process and to meet tendering requirements. In the execution phase, the decisive factors are financial management (including relations with banks) and the ability to ensure sufficient liquidity.
- Companies will continue to challenge the results of poorly prepared public procurements but mostly on account of substantive, not technical issues. Some procurements will be cancelled because the customers have prepared their project budgets based on the construction prices of 2009-2010. The latter are no longer realistic and construction companies' bids exceed them by tens of percents.
- The contracts signed with public sector customers will impose rigorous conditions on construction companies, including extensive obligations, strict sanctions, different financial guarantees, long settlement terms, etc. In a situation where public procurement 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. However, 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 rise in input prices, which began in 2011, has reached a point where it is hindering private customers' investment decisions.
- The situation in the labour market will remain relatively stable. Companies have adapted to the situation but when volumes increase the availability of qualified labour will again be an issue. In 2012 the base wage paid by construction companies, which have to maintain tight cost control, is not likely to rise but the pressure for a wage increase remains high. There will be no more surges in labour migration to the Nordic countries. As the size of the Nordic construction market stabilises, the same will probably happen to labour migration.
- In 2012 the construction market will continue to be seriously and somewhat unpredictably impacted by massive funds raised from the sale of carbon dioxide emission quotas, which are allocated within an extremely short period for improving the energy efficiency of buildings. It has already triggered demand hikes in certain segments of the construction market (joint filling, facade and roof works, installation of heating systems, etc), causing unreasonable rises in respective prices and hence temporary problems for the entire sector. In 2013, when the resources are depleted, volumes will plummet and competition will heighten, particularly among small and medium-sized players in the segments involved.
- The volume of private investments in the construction sector will depend on the economic growth rate, the export markets and related forecasts. 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 the first half of 2012, slightly more investment decisions were made but recovery is slow and cautious because consumer confidence remains low and the European debt crisis has not been resolved. Still, we expect to see a few large investments in certain sub-segments of building and infrastructure construction (extensions to shopping centres and industrial facilities, and hydraulic engineering projects respectively).

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 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, we have decided to continue our 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 the future 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 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 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 main factors, which affect the Group's business volumes and profit margins, are competition in the construction market and changes in the demand for construction services. 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.

In the next years, the Estonian construction market will be heavily dependent on public sector investments. A significant proportion of the latter is made up of support from the EU structural funds. The availability of that support is relatively certain until the end of the current budget period (2007-2013). According to disbursement terms, a supported project has to be completed by the end of the budget period. This means that in 2013 the number of projects launched will decrease significantly. We do not know the details of the budget for 2014-2020, although it is clear that the investments included in it will have a significant and direct impact on the business volumes of construction companies. According to currently available information, the volume of planned investments will decrease.

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 risk, 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. Thus, 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 cancellation resolution 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 grant 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 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 Economic Affairs and Communications. By the date of release of this report, no criminal charges have been filed against any of the suspects.

On 20 June 2012, the public prosecutor's office issued an order for partial termination of criminal proceedings instituted by the security police in November 2011 for investigation of circumstances surrounding the public procurement of the design and build of the Aruvalla-Kose road section. Erkki Suurorg and Nordecon AS were charged with suspicion of attempting to conclude an agreement for distorting competition and later also of promising a gratuity. With the order, the public prosecutor's office terminated criminal proceedings related to the suspicion of promising a gratuity because it established that the act had not taken place.

Criminal proceedings concerning the alleged episode of a competition act offence are still pending. Erkki Suurorg and Nordecon AS gave their testimony during the preliminary investigation and have affirmed that the suspicions are baseless.

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 30 June 2012, the Group's warranties provisions (including current and non-current ones) totalled 1,103 thousand euros. At 30 June 2011, the corresponding figure was 1,045 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 half of 2012, recoveries of receivables written down in prior periods exceeded credit losses by 4 thousand euros (HY1 2011: the Group recognised a credit loss of 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 6.2 million euros.

At 30 June 2012, the Group's current assets exceeded its current liabilities 1.05-fold (30 June 2011: 1.19-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 10,499 thousand euros that will probably be refinanced. If the current ratio were adjusted accordingly, it would be 1.37.

At the reporting date, the Group's cash and cash equivalents totalled 5,332 thousand euros (30 June 2011: 6,343 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 30 June 2012, the Group's interest-bearing loans and borrowings totalled 36,544 thousand euros, an increase of 5,202 thousand euros year-over-year. Interest expense for the first half of 2012 amounted to 504 thousand euros. Compared with the first half of 2011, interest expense has increased by 5 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. 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 half of 2012, fluctuations in the euro-hryvna exchange rate remained below 5%. The Group's net foreign exchange gain for the first half of 2012 was 83 thousand euros (HY1 2011: a loss of 109 thousand euros).

Since Estonia's adoption of the euro at the beginning of 2011, the Group's Finnish operations do not involve a currency risk. Nor does the Group have any currency risk in Lithuania where operations have been suspended. Currency risk is also reduced by the fact that the prices of construction 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		9 August 2012
Avo Ambur	Member of the Board		9 August 2012
Erkki Suurorg	Member of the Board		9 August 2012

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	30 June 2012	31 December 2011
ASSETS			
Current assets			
Cash and cash equivalents		5,332	9,908
Trade and other receivables	2	47,177	34,645
Prepayments		2,883	2,610
Inventories	3	25,142	24,120
Non-current assets held for sale		0	242
Total current assets		**80,534**	**71,525**
Non-current assets			
Investments in equity-accounted investees		248	199
Other investments		26	26
Trade and other receivables	2	2,370	2,504
Investment property		4,930	4,930
Property, plant and equipment	4	8,269	7,437
Intangible assets	4	14,907	14,960
Total non-current assets		**30,750**	**30,056**
TOTAL ASSETS		**111,284**	**101,581**
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	30,754	19,130
Trade payables		33,302	27,403
Other payables		5,135	4,930
Deferred income		6,915	10,587
Provisions		300	485
Total current liabilities		**76,406**	**62,535**
Non-current liabilities			
Loans and borrowings	5, 6	5,790	9,513
Trade payables		199	199
Other payables		96	96
Provisions		918	841
Total non-current liabilities		**7,003**	**10,649**
TOTAL LIABILITIES		**83,409**	**73,184**
EQUITY			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		-516	-463
Retained earnings		4,072	4,563
Total equity attributable to equity holders of the parent		**25,767**	**26,311**
Non-controlling interest		**2,108**	**2,086**
TOTAL EQUITY		**27,875**	**28,397**
TOTAL LIABILITIES AND EQUITY		**111,284**	**101,581**

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q2 2012	Q2 2011	6M 2012	6M 2011	2011
Revenue	8, 9	40,445	36,706	62,920	54,429	147,802
Cost of sales	10	-38,293	-38,061	-60,732	-55,857	-147,608
Gross profit/loss		**2,152**	**-1,355**	**2,188**	**-1,428**	**194**
Distribution expenses		-114	-68	-190	-164	-317
Administrative expenses	11	-1,274	-1,057	-2,504	-2,124	-4,641
Other operating income	12	253	153	366	379	806
Other operating expenses	12	31	-58	-57	-164	-672
Operating profit/loss		**1,048**	**-2,385**	**-197**	**-3,501**	**-4,630**
Finance income	13	196	167	341	350	938
Finance expenses	13	-255	-306	-539	-611	-1,086
Net finance expense		**-59**	**-139**	**-198**	**-261**	**-148**
Share of profit of equity-accounted investees		73	47	49	47	100
Profit/loss before income tax		**1,062**	**-2,477**	**-346**	**-3,715**	**-4,678**
Income tax expense		-44	-5	-44	-1	-30
Profit/loss for the period		**1,018**	**-2,482**	**-390**	**-3,716**	**-4,708**
Other comprehensive income/expense:						
Exchange differences on translating foreign operations		-114	101	-53	216	-329
Total other comprehensive income/expense for the period		**-114**	**101**	**-53**	**216**	**-329**
TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE PERIOD		**904**	**-2,381**	**-443**	**-3,500**	**-5,037**
Profit/loss attributable to:						
- Owners of the parent		873	-2,475	-491	-3,652	-5,304
- Non-controlling interests		145	-7	101	-64	596
Profit/loss for the period		**1,018**	**-2,482**	**-390**	**-3,716**	**-4,708**
Total comprehensive income/expense attributable to:						
- Owners of the parent		759	-2,420	-544	-3,510	-5,924
- Non-controlling interests		145	39	101	10	887
Total comprehensive income/expense		**904**	**-2,381**	**-443**	**-3,500**	**-5,037**
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	0.03	-0.10	-0.02	-0.12	-0.17
Diluted earnings per share (EUR)	7	0.03	-0.10	-0.02	-0.12	-0.17

Condensed consolidated interim statement of cash flows

EUR '000	6M 2012	6M 2011
Cash flows from operating activities		
Cash receipts from customers[1]	65,346	58,164
Cash paid to suppliers[2]	-62,528	-49,220
VAT paid	-2,079	-1,246
Cash paid to and for employees	-7,809	-5,851
Income tax paid	-11	-1
Net cash used in/from operating activities	**-7,081**	**1,846**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-836	-13
Proceeds from sale of property, plant and equipment and intangible assets	363	280
Loans granted	-376	-87
Repayment of loans granted	19	1,631
Dividends received	0	4
Interest received	0	181
Net cash used in/from investing activities	**-830**	**1,996**
Cash flows from financing activities		
Proceeds from loans received	6,334	892
Repayment of loans received	-1,322	-2,408
Payment of finance lease liabilities	-1,090	-931
Interest paid	-587	-545
Other payments	0	-2
Net cash from/used in financing activities	**3,335**	**-2,994**
Net cash flow	**-4,576**	**848**
Cash and cash equivalents at beginning of period	**9,908**	**5,818**
Effect of exchange rate fluctuations	0	-323
Decrease/increase in cash and cash equivalents	-4,576	848
Cash and cash equivalents at end of period	**5,332**	**6,343**

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

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

Condensed consolidated interim statement of changes in equity

	Equity attributable to equity holders of the parent						
EUR '000	**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	-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**
Balance at 31 December 2011	**19,657**	**2,554**	**-463**	**4,563**	**26,311**	**2,086**	**28,397**
Profit/loss for the period	0	0	0	-491	-491	101	-390
Other comprehensive expense	0	0	-53	0	-53	0	-53
Dividend distribution	0	0	0	0	0	-79	-79
Balance at 30 June 2012	**19,657**	**2,554**	**-516**	**4,072**	**25,767**	**2,108**	**27,875**

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 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 second quarter and first six 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 2012 that have an impact on the Group's financial statements:

- None

New and revised standards and interpretations effective from 1 January 2012 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

Current portion (EUR '000)	Note	30 June 2012	31 December 2011
Trade receivables		28,188	14,783
Retentions receivable		2,861	2,544
Receivables from related parties	14	1,475	982
Loans to related parties		8,934	8,150
Miscellaneous receivables		1,118	1,057
Total receivables and loans granted		**42,576**	**27,516**
Due from customers for contract work		4,601	7,129
Total trade and other receivables		**47,177**	**34,645**

Trade receivables have increased due to seasonal growth in operations. During the period under review, the Group did not recognise any major impairment losses on receivables.

Non-current portion (EUR '000)	Note	30 June 2012	31 December 2011
Loans to related parties	14	1,984	2,117
Miscellaneous receivables		386	387
Total trade and other receivables		**2,370**	**2,504**

NOTE 3. Inventories

EUR '000	30 June 2012	31 December 2011
Raw and other materials	3,441	3,120
Work in progress	6,529	5,330
Properties purchased for sale and development	13,263	13,263
Finished goods	1,909	2,407
Total inventories	**25,142**	**24,120**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first half of 2012, additions to property, plant and equipment totalled 1,696 thousand euros and consisted of equipment and construction machinery acquired for the Group's operating activities (including investments in a new asphalt plant, which began operating in July 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 363 thousand euros (see consolidated statement of cash flows) and sales gain amounted to 237 thousand euros (see note 12).

Intangible assets

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

NOTE 5. Finance and operating leases

Finance lease liabilities (EUR '000)	30 June 2012	31 December 2011
Finance lease liabilities at end of reporting period	**2,690**	**2,934**
Of which payable in less than 1 year	1,394	1,670
Of which payable between 1 and 5 years	1,296	1,264
Base currency EUR	2,690	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)	6M 2012	6M 2011
Principal payments made during the period	1,090	931
Interest payments made during the period	52	65

Operating lease payments made (EUR '000)	6M 2012	6M 2011
Payments made for cars	320	357
Payments made for construction equipment	614	1,235
Payments made for premises	334	215
Payments made for software	200	174
Total operating lease payments made	**1,468**	**1,981**

NOTE 6. Interest-bearing loans and borrowings

Short-term loans and borrowings

EUR '000	Note	30 June 2012	31 December 2011
Short-term bank loans		15,532	9,288
Short-term portion of long-term bank loans		9,494	6,996
Short-term portion of finance lease liabilities	5	1,394	1,670
Factoring liabilities		4,334	1,176
Total short-term loans and borrowings		**30,754**	**19,130**

Long-term loans and borrowings

EUR '000	Note	30 June 2012	31 December 2011
Long-term portion of bank loans		3,510	7,265
Long-term portion of finance lease-liabilities	5	1,296	1,264
Other long-term loans		984	984
Total long-term loans and borrowings		**5,790**	**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	6M 2012	6M 2011
Loss for the period attributable to owners of the parent	-491	-3,652
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share	-0.02	-0.12
Diluted earnings per share	-0.02	-0.12

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

NOTE 8. Segment reporting – operating segments

The Group's chief operating decision maker is the board of the parent company Nordecon AS. The board monitors the Group's internally generated financial information on a regular basis to better allocate the resources and assess their utilisation. Reportable operating segments are identified by reference to monitored information.

The 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.

HY1

EUR '000 6M 2012	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	28,450	160	32,786	1,602	62,998
Inter-segment revenue	0	-102	-20	-705	-827
Revenue from external customers	**28,450**	**58**	**32,766**	**897**	**62,171**
Segment profit/loss	**2,031**	**-75**	**1,215**	**-14**	**3,157**

6M 2011	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
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**	**53,876**
Segment profit/loss	**-513**	**102**	**-725**	**-94**	**-1,230**

Q2

EUR '000 Q2 2012	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	16,605	61	22,809	1,105	40,580
Inter-segment revenue	0	-25	-15	-485	-525
Revenue from external customers	**16,605**	**36**	**22,794**	**620**	**40,055**
Segment profit/loss	**1,083**	**-61**	**1,893**	**168**	**3,083**

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**

Reconciliation of segment revenues

EUR '000	6M 2012	Q2 2012	6M 2011	Q2 2011
Total revenues for reportable segments	61,396	39,475	55,784	36,690
Revenue for other segments	1,602	1,105	3,541	1,603
Elimination of inter-segment revenues	-827	-525	-5,450	-1,886
Unallocated revenue	749	390	554	299
Total consolidated revenue	**62,920**	**40,445**	**54,429**	**36,706**

Reconciliation of segment profit

EUR '000	6M 2012	Q2 2012	6M 2011	Q2 2011
Total profit/loss for reportable segments	3,171	2,915	-1,136	-1,561
Total profit/loss for other segments	-14	168	-94	26
Elimination of inter-segment profits/losses	-37	-32	-20	-16
Unallocated profits/losses	-932	-899	-178	196
Total gross profit/loss	**2,188**	**2,152**	**-1,428**	**-1,355**
Unallocated items:				
Distribution expenses	-190	-114	-164	-68
Administrative expenses	-2,504	-1,274	-2,124	-1,057
Other operating income	309	284	215	95
Consolidated operating profit/loss	**-197**	**1,048**	**-3,501**	**-2,385**
Finance income	341	196	350	167
Finance expenses	-539	-255	-611	-306
Share of profit of equity-accounted investees	49	73	47	47
Consolidated profit/loss before tax	**-346**	**1,062**	**-3,715**	**-2,477**

NOTE 9. Segment reporting – geographical information

EUR '000	6M 2012	Q2 2012	6M 2011	Q2 2011
Estonia	62,226	40,129	51,625	35,217
Ukraine	152	52	222	182
Belarus	8	8	1,863	927
Finland	636	280	732	380
Inter-segment eliminations	-102	-24	-13	0
Total revenue	**62,920**	**40,445**	**54,429**	**36,706**

NOTE 10. Cost of sales

EUR '000	6M 2012	6M 2011
Cost of materials, goods and services used	53,682	48,969
Personnel expenses	5,962	5,596
Depreciation and amortisation expense	978	1,131
Other expenses	110	161
Total cost of sales	**60,732**	**55,857**

NOTE 11. Administrative expenses

EUR '000	6M 2012	6M 2011
Personnel expenses	1,181	1,024
Cost of materials, goods and services used	1,124	955
Depreciation and amortisation expense	144	92
Other expenses	55	53
Total administrative expenses	**2,504**	**2,124**

NOTE 12. Other operating income and other operating expenses

Other operating income (EUR '000)	6M 2012	6M 2011
Gain on sale of property, plant and equipment and intangible assets	263	219
Foreign exchange gain	64	127
Other income	39	33
Total other operating income	**366**	**379**

Other operating expenses (EUR '000)	6M 2012	6M 2011
Losses on write-off of property, plant and equipment and intangible assets	26	3
Foreign exchange loss	3	123
Impairment losses on receivables	-4	2
Membership fees	1	1
Other expenses	31	35
Total other operating expenses	**57**	**164**

NOTE 13. Finance income and finance expenses

Finance income (EUR '000)	6M 2012	6M 2011
Interest income on loans	297	342
Foreign exchange gain	30	1
Other finance income	14	7
Total finance income	**341**	**350**

Finance expenses (EUR '000)	6M 2012	6M 2011
Interest expense	504	499
Foreign exchange losses	6	112
Other finance expenses	29	0
Total finance expenses	**539**	**611**

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 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		6M 2012		6M 2011
Volume of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	152	2	236	3
Companies of AS Nordic Contractors group	14	2,018	380	454
Equity-accounted investees	199	4	0	0
Companies connected with a member of the council	35	0	0	0
Total	**400**	**2,024**	**616**	**457**

EUR '000		6M 2012		6M 2011
Nature of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	0	2,016	432	436
Lease and other services	400	8	184	21
Total	**400**	**2,024**	**616**	**457**

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

During the reporting period, the Group recognised interest income on loans to associates of 238 thousand euros (HY1 2011: 224 thousand euros), interest income on loans to joint ventures of 54 thousand euros (HY1 2011: 53 thousand euros) and interest income on loans to other related parties of 0 thousand euros (HY1 2011: 61 thousand euros).

Receivables from and liabilities to related parties at period-end

		30 June 2012		31 December 2011
EUR '000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	0	182	1	42
Companies of AS Nordic Contractors group	422	0	1	0
Associates - receivables	1,053	22	980	0
Associates – loans and interest	9,116	0	8,528	0
Joint ventures – loans and interest	1,802	0	1,739	0
Total	**12,393**	**204**	**11,249**	**42**

Receivables from companies of AS Nordic Contractors group and associates result mainly from construction services.

The remuneration of the members of the council of Nordecon AS for the first half of 2012, including associated social security charges, amounted to 94 thousand euros. The corresponding figure for the first half of 2011 was 50 thousand euros. The amount has increased in connection with the decision of Nordecon AS's annual general meeting to increase the remuneration of the council as from 2012. The remuneration of the members of the board of Nordecon AS, including social security charges, totalled 196 thousand euros. The figure for the comparative period was 143 thousand euros. The figure increased due to the termination benefits paid to the member of the board who was recalled in May 2012.

Statements and signatures

Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the second quarter and first six months of 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		9 August 2012
Avo Ambur	Member of the Board		9 August 2012
Erkki Suurorg	Member of the Board		9 August 2012