



**Financial report for the third quarter
and nine months of 2012**
(unaudited)





Financial report for the third quarter and nine months of 2012 (unaudited)

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Corporate website	www.nordecon.com
Core business activities	Construction of buildings Civil engineering Specialised construction activities Architectural and engineering activities
Financial year	1 January 2012 – 31 December 2012
Reporting period	1 January 2012 – 30 September 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, our 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 improving profitability and achieving 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 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 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 reporting period

Changes in the Group's Estonian operations

There were no changes in the Group's Estonian operations during the reporting period. 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 reporting period, 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 the project, the Group will discontinue its operations in Belarus. At the date of release of this report, we have reached the final stages of liquidating the Belarusian subsidiary.

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. According to the analysis prepared by the local management, it is likely that we will continue operating in Ukraine also in 2013. 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 decided to privatise the land of the V.I. Center TOV development project. By the date of release of this report, privatisation proceedings have been completed and the properties belong to our Ukrainian associate.

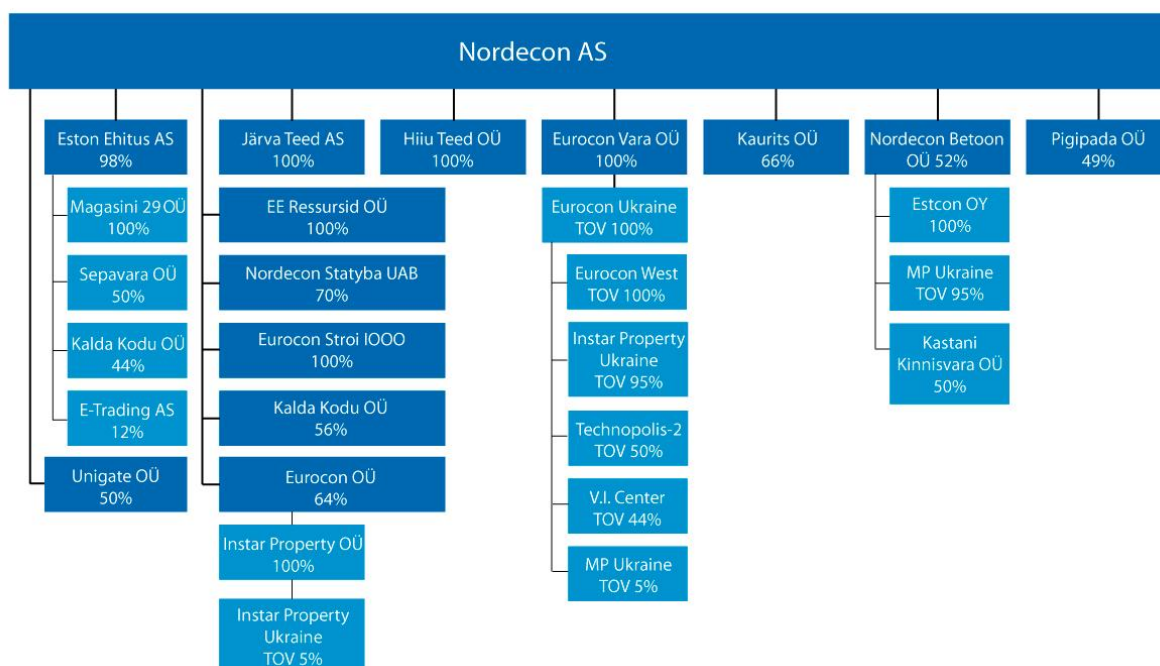
Finland

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 September 2012, including interests in subsidiaries and associates¹



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

During the first nine months of 2012, the Group's structure did not change compared with the end of 2011.

Significant changes in the Group's structure after 30 September 2012

Unigate OÜ

In October, the shareholders of Unigate OÜ signed a notarised plan of division according to which properties subject to nature conservation restrictions were separated from the company and were divided equally between the shareholders. Under the division plan, the properties will be transferred to companies established by the shareholders. Nordecon AS is going to establish four subsidiaries for accepting the properties (OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9). The subsidiaries' sole shareholder will be Nordecon AS.

Eurocon OÜ

In October, Eurocon OÜ (the acquirer) and its solely held subsidiary Instar Property OÜ (the acquiree) signed a merger agreement. The merger proceedings did not give rise to any changes in the share capital of the acquirer, Eurocon OÜ. Instar Property OÜ did not conduct active business operations in 2012.



Financial review

Financial performance

Nordecon Group ended the first nine months of 2012 with a gross profit of 6,026 thousand euros (9M 2011: a gross loss of 717 thousand euros). Most of the profit was earned in the second and third quarters where performance was not weakened by adverse weather conditions and the fixed costs of the technological standstill, which impacted the first quarter. Moreover, compared with the previous year, profit was not undermined by loss-making contracts. In the comparative period, losses from contracts secured in 2009-2010 were significant and obscured the fact that the margins of contracts secured in 2011 would have allowed us to earn a gross profit already last year.

The main factors that helped restore operational profitability were Group-wide austerity measures enforced in 2010 due to market slump, restructuring, and streamlining of internal 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. It should be kept in mind that the profits of long-term construction contracts are recognised based on the stage of completion of contract activity, which means that profit is 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 the risks to profitability still persist.

Administrative expenses for the reporting period totalled 3,941 thousand euros including non-recurring consulting fees incurred to adjust the Group's strategy in the changing environment and partial provisions made for performance bonuses. The ultimate size of the performance bonuses will be determined at the end of the financial year. The ratio of administrative expenses to revenue was 3.4% (9M 2011: 3.2%). The 12 months' rolling average ratio was 3.3% (9M 2011: 3.8%). 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.

The Group's operating profit for the first nine months of 2012 was 2,106 thousand euros (9M 2011: an operating loss of 3,644 thousand euros). EBITDA was positive at 3,735 thousand euros (9M 2011: negative at 1,846 thousand euros).

The Group ended the first nine months of 2012 with a net profit of 1,988 thousand euros. The profit attributable to owners of the parent, Nordecon AS, was 1,630 thousand euros. The first nine months of 2011 ended in a net loss of 3,946 thousand euros and the loss attributable to owners of the parent was 4,157 thousand euros (i.e. subsidiaries with non-controlling interests operated with a profit).

Cash flows

Operating activities of the first nine months of 2012 resulted in a net cash inflow of 1,762 thousand euros (9M 2011: 3,953 thousand euros). Operating cash flows were influenced the most by cyclical fluctuations in project-related cash flows. The settlement terms granted to customers are still unreasonably long and in the case of public procurement generally extend from 45 to 100 days while subcontractors ordinarily have to be paid within 21 to 45 days. In 2012 the difference between the settlement terms agreed with customers and those agreed with subcontractors continued to increase. We counteract the cyclical fluctuations with factoring and overdraft facilities provided for raising additional working capital.

VAT and labour tax payments increased compared with the prior year. In the reporting period, we purchased a significant amount of building materials from abroad without the possibility of recovering input VAT but on the resale of our services in Estonia VAT had to be paid. The amount of VAT payments is also influenced by the fact



that the Group is earning gross profit. In the previous year, due to the incurrence of a gross loss, operating activities gave rise to prepaid VAT, which was used, among other things, to offset labour tax liabilities. In 2012 we have not had similar offsetting opportunities.

Cash flows from investing activities resulted in a net outflow of 2,308 thousand euros (9M 2011: a net inflow of 2,638 thousand euros). The main reasons for the net outflow were loans granted to associates and payments made for property, plant and equipment (including the acquisition of a new and more productive asphalt plant through a sale and leaseback transaction). 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 outflow of 298 thousand euros (9M 2011: a net outflow of 5,242 thousand euros). A positive difference between loan receipts and loan repayments indicates that we have had to borrow in order to secure the liquidity required for our operating activities. The volume of loans received was also increased by the acquisition of a new asphalt plant through a sale and leaseback transaction. Finance lease payments have increased due to more active investment. Dividends paid comprise profit distributions to a subsidiary's non-controlling shareholders.

At 30 September 2012, the Group's cash and cash equivalents totalled 9,066 thousand euros (30 September 2011: 6,822 thousand euros). Management's comments on potential liquidity risks are presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	9M 2012	9M 2011	9M 2010	2011
Revenue (EUR'000)	117,054	103,260	75,257	147,802
Revenue growth/decrease, %	13.4%	37.2%	-40.2%	49%
Net profit/loss (EUR'000)	1,988	-4,039	-6,233	-4,708
Profit/loss attributable to owners of the parent (EUR'000)	1,630	-4,250	-5,722	-5,304
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.05	-0.14	-0.19	-0.17
Administrative expenses to revenue, %	3.4%	3.2%	4.5%	3.1%
Administrative expenses to revenue (rolling)	3.3%	3.8%	5.0%	3.1%
EBITDA (EUR'000)	3,735	-1,846	-2,052	-1,819
EBITDA margin, %	3.2%	-1.8%	-2.7%	-1.2%
Gross margin, %	5.1%	-0.7%	-0.7%	0.1%
Operating margin, %	1.8%	-3.5%	-6.0%	-3.1%
Operating margin excluding gains on asset sales, %	1.4%	-3.9%	-6.3%	-3.5%
Net margin, %	1.7%	-3.9%	-8.3%	-3.2%
Return on invested capital, %	4.6%	-5.1%	-7.4%	-5.9%
Return on equity, %	6.8%	-12.8%	-14.7%	-15.2%
Equity ratio, %	25.7%	27.6%	36.7%	28.0%
Gearing, %	41.1%	37.6%	33.0%	32.8%
Current ratio	1.08	1.18	1.56	1.14

	30 Sept 2012	30 Sept 2011	30 Sept 2010	31 Dec 2011
Order book (EUR'000)	146,070	155,421	89,430	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 nine months of 2012, roughly 1% of the Group's revenue was generated outside Estonia. In the first nine months of 2011, foreign operations accounted for 4% of the Group's revenue.

	9M 2012	9M 2011	9M 2010	2011
Estonia	99%	96%	96%	97%
Ukraine	0%	0%	3%	0%
Belarus	0%	2%	1%	1%
Finland	1%	2%	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 reporting period*). 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 until the end 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 nine months of 2012 was 117,054 thousand euros, 13% up on the 103,260 thousand euros generated in the comparative period. The foundation for revenue growth was laid in 2011 when the Estonian construction market began recovering and the Group secured a number of major new contracts which are currently in progress. The first half of 2012 was also successful in terms of winning new contracts. Year over year revenue growth should continue in the last quarter but 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 its total sales.

Segment revenue

At the end of the first nine months of 2012, the contribution of the Infrastructure segment was somewhat larger than that of the Buildings segment and it should remain so until the year-end. The Buildings segment ended nine months with revenue of 49,637 thousand euros and the Infrastructure segment with revenue of 64,607 thousand euros. The corresponding figures for the comparative period were 48,756 thousand euros and 50,525 thousand euros respectively (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 (70%) of contracts in the Group's order book belong to the Infrastructure segment. Despite this, in recent periods 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 segments²

	9M 2012	9M 2011	9M 2010	2011
Buildings	42%	48%	47%	48%
Infrastructure	58%	52%	53%	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

The Buildings segment continued to earn most of its revenue from the construction of public buildings financed by the public sector. The largest project was the construction of the Ämari Air Base, which to date is substantially complete. We have also substantially completed the construction of the Estonian embassy in Kiev. The largest ongoing construction project is the design and build of the translational medicine centre of the University of Tartu.

Improvements in the economic environment have triggered a rise in private sector investments, particularly in the commercial buildings sub-segment. During the period, we began building five new commercial buildings – three in Tallinn, one in Tartu and one in Narva. Compared with a year ago, private sector investments have grown visibly but their relative scarcity compared with public sector investments remains a problem.

There was certain growth in private sector investments in the industrial and warehouse facilities sub-segment but most of the revenue still resulted from contracts performed for the agricultural sector. Compared with the prior year, the contribution of the industrial and warehouse facilities sub-segment has declined because the support provided by the EU structural funds that co-finance the projects has decreased and the Belarusian contract has been completed. Apartment buildings were built for non-Group customers, the Group acting as a general contractor, not a developer.

We expect revenue distribution within the Buildings segment to remain more or less stable until the year-end.

Revenue distribution within the Buildings segment	9M 2012	9M 2011	9M 2010	2011
Commercial buildings	24%	10%	24%	12%
Industrial and warehouse facilities	28%	43%	31%	40%
Public buildings	44%	45%	33%	45%
Apartment buildings	4%	2%	12%	3%

As expected, at the reporting date the main revenue source in the Infrastructure segment was road construction and maintenance. The sub-segment's contribution was boosted by contracts secured in the first half-year - the construction of the Tartu western bypass and eastern ring road. Although the relative importance of road construction and maintenance has decreased, its revenue has increased year over year.

In specialist engineering, growth was underpinned by the construction of Sillamäe port, which commenced in the second half of 2011, and Kärkla guest harbour, which began last summer.

Similarly to preceding periods, a major share of the revenue of the Infrastructure segment resulted from the construction of water and wastewater networks (other engineering) financed with the support of the EU structural funds across Estonia.

The contribution of environmental engineering decreased because there is no contract comparable to the bio-filter for the wastewater treatment plant of Tallinn, which was under construction in 2011. We have won several environmental engineering contracts in 2012 but the bulk of their construction activity will fall in 2013.

We expect revenue distribution in the Infrastructure segment to remain more or less stable until the year-end.

Revenue distribution within the Infrastructure segment	9M 2012	9M 2011	9M 2010	2011
Road construction and maintenance	49%	56%	69%	47%
Specialist engineering (including hydraulic engineering)	15%	1%	1%	10%
Other engineering	31%	33%	22%	35%
Environmental engineering	5%	10%	8%	8%



Order book

At 30 September 2012, our order book stood at 146,070 thousand euros, being 6% smaller than a year ago.

On the one hand, order book has decreased due to gradual performance of major contracts secured in 2011 (e.g. the design and build of the Aruvalla-Kose road section, construction of berths at Sillamäe port). Addition of large contracts is irregular. Initially they increase the order book significantly (positive impact on order book), but as they are performed, the balance of major projects declines (negative impact on order book).

On the other hand, the decline is attributable to changes taking place in the construction market. Due to market shrinkage, competition in the public buildings sub-segment is fierce and, as a result, the proportion of such contracts in the Group's portfolio has decreased.

However, we have been able to increase our order book in the commercial and apartment buildings sub-segments (Buildings segment) and in the specialised engineering (construction of water and wastewater networks) and environmental engineering sub-segments (Infrastructure segment).

	30 Sept 2012	30 Sept 2011	30 Sept 2010	31 Dec 2011
Order book (EUR'000)	146,070	155,421	89,430	134,043

At 70% the Infrastructure segment continues to account for a major share of the total order book (30 September 2011: 74%).

Between the reporting date (30 September 2012) and the date of release of this report, Group companies have been awarded construction contracts of approximately 7,376 thousand euros.

People

Staff and personnel expenses

At the reporting date, the Group (the parent and the subsidiaries) employed, on average, 789 people including 372 engineers and technical personnel (ETP). In connection with growth in the Group's operating volumes, both the number ETP and 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 beginning of the financial year. For the same reason, headcount should decrease slightly towards the year-end.

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

	9M 2012	9M 2011	9M 2010	2011
ETP	372	362	380	351
Workers	417	390	428	380
Total average	789	752	808	731

The Group's personnel expenses for the first nine months of 2012 including all taxes totalled 11,835 thousand euros, 12% up on the comparative period when personnel expenses were 10,543 thousand euros. The growth in personnel expenses is mainly attributable to growth in the number of staff. In the third quarter, personnel expenses were further increased by the recognition of partial provisions for potential performance bonuses.

The remuneration expenses of the members of the council of Nordecon AS for the first nine months of 2012, including associated social security charges, amounted to 176 thousand euros (9M 2011: 69 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 expenses of the members of the board of Nordecon AS, including social security charges, totalled 387 thousand euros (9M 2011: 204 thousand euros). The figure has increased due to the termination benefits paid to the member of the board who was recalled in May 2012. The remuneration expenses of both the council and the board include the partial provisions made for their potential performance bonuses. The ultimate size of the performance bonuses will be determined at the end of the financial year.

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:



	9M 2012	9M 2011	9M 2010	2011
Nominal labour productivity (rolling), (EUR'000)	213.0	173.8	124.5	202.3
Change against the comparative period, %	22.5%	39.6%	-20.7%	57.7%
Nominal labour cost efficiency (rolling), (EUR'000)	10.4	8.8	6.6	10.4
Change against the comparative period, %	18.5%	34.2%	-6.8%	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-Betoonement, OÜ Vääkivi, 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 (over 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 (over 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 (over 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 (over 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 (over 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: none

Interests (over 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 (board), Healthy Estonia Foundation (council)

Interests (over 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 (over 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 (over 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.

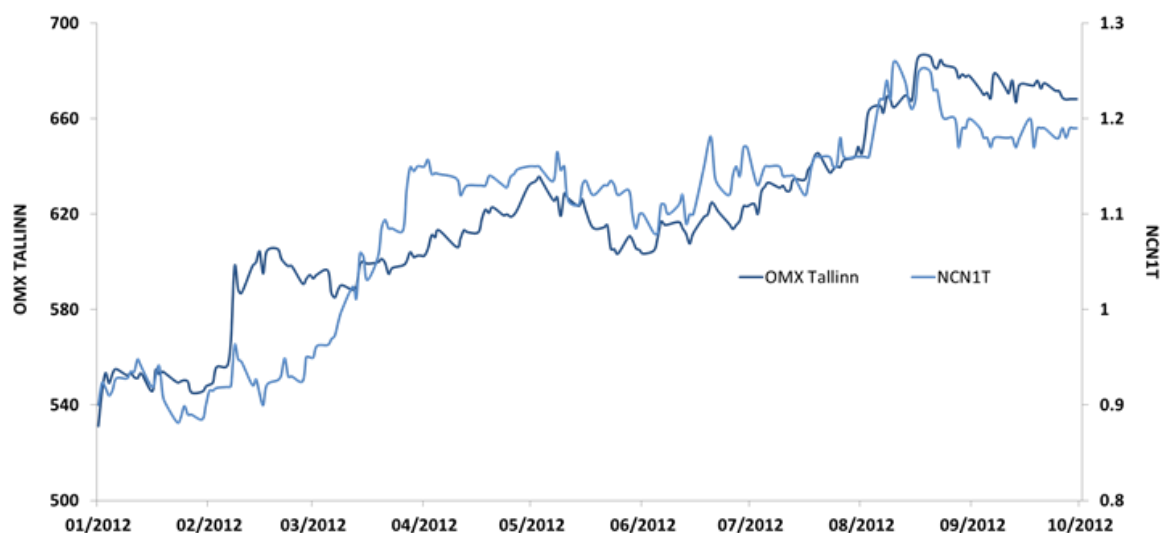
Movements in the price and turnover of the Nordecon AS share in the first nine months of 2012

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 nine months of 2012



Index/equity	1 January 2012*	30 September 2012	+/- %
OMX Tallinn	531.17	668.21	+25.80
NCN1T	0.90 EUR	1.19 EUR	+32.22

* Closing price at the NASDAQ OMX Tallinn Stock Exchange at 31 December 2011

Summarised trading results

Share trading history

Price (EUR)	9M 2012	9M 2011	9M 2010
Open	0.92	1.38	1.62
High	1.26	1.50	2.60
Low	0.88	0.88	1.05
Last closing price	1.19	0.98	1.35
Traded volume (number of securities traded)	3,014,331	3,430,730	5,921,420
Turnover, millions	3.29	4.38	9.59
Listed volume (30 September), thousands	30,757	30,757	30,757
Market capitalisation (30 September), millions	36.60	30.14	41.52

Shareholder structure

Largest shareholders of Nordecon AS at 30 September 2012

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
ING Luxembourg S.A.	2,007,949	6.53
Skandinaviska Enskilda Banken Sweden clients	1,803,628	5.86
Luksusjaht AS	1,250,935	4.07
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
SEB Elu- ja pensionikindlustus AS	262,700	0.85
Skandinaviska Enskilda Banken Finland clients	257,410	0.84



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

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	66.06
Shareholders with interest between 1% and 5%	5	11.59
Shareholders with interest below 1%	1,985	22.34
Total	1,993	100.00

Shares controlled by members of the council of Nordecon AS at 30 September 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 September 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 2012-2013

- Infrastructure contracts, which have dominated the construction market in 2012, will continue to prevail also in 2013. Opportunities for certain market growth are 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. The buildings segment will be influenced by two large public sector contracts, which are expected to be launched in 2013 - the Estonian National Museum and the Maarjamõisa Medical Campus of Tartu University Hospital. 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.
- 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 is coming to an end (2013) and co-financing terms require that a project should be completed during the budget period. Anticipation of shrinkage in public sector investments from 2013 onward 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 (2014-2020).
- Players will continue consolidating, particularly in the field of general contracting in building construction where the number of medium-sized operators (annual turnover of around 15-40 million euros) is still too large. The tenders of 2012 reflect that pricing pressure in the segment remains strong. Based on the past three years' experience it is reasonable to assume that stiff competition and insufficient demand will bring about slow shrinkage rather than rapid adjustment of the number of companies intermediating construction services. Besides competition, the number and business volumes of market participants will depend on their ability to make successful bids and to meet tendering requirements. In the execution phase, the decisive factors are financial management (including relations with banks) and the ability to secure sufficient liquidity.
- Companies will continue to challenge the results of poorly prepared public procurements but mostly on account of substantive, not technical issues. Somewhat fewer public procurements will be cancelled because customers have prepared the budgets using unrealistic construction prices that are tens of percents lower than the bids made by construction companies.
- The contracts signed with public sector customers will impose rigorous conditions on construction companies, including extensive obligations, strict sanctions, different financial guarantees, extremely long settlement terms, etc. In a situation where public procurement is based on underbidding, this increases the risks of all market participants.
- 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 holding back 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 smaller 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 companies, investors and banks have made decisions that have held back private sector investments. The recovery, which began in 2012, will continue in 2013 but the decision-making processes will be slow and cautious and private sector customers will not yet become a viable alternative to public sector customers. Moreover, the European debt crisis, which has both direct and indirect influence on investment decisions, has not been definitively resolved. Still, we expect to see a few large investments in certain sub-segments of both 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 our 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 we will resume our 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 at the end of 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.

Most probably we will continue operating in Ukraine with a similar action plan also in 2013. At the end of 2012, management of our Ukrainian operations will be assigned to a new CEO who has been working for an entity related to the Group's Ukrainian operations for over six years. The main task set by the Group for the first half of 2013 is to conduct a critical analysis of the prospects of the Group's Ukrainian operations and to develop an appropriate action plan.

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 continues to experience tough times. 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). The prospects of continuing operations in Finland in 2013 according to the same action plan are good. Nevertheless, we will maintain a rational approach and will avoid taking excessive risks. 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.

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

On 26 September 2012, the Public Prosecutor's Office issued a ruling by which it terminated the criminal proceedings instituted against Nordecon AS and a member of its management board, Erkki Suurorg, in November 2010.

The criminal matter concerned the first procurement of services for the design and build of the Aruvalla-Kose road section arranged by the Estonian Road Administration. In connection with the procurement, Erkki Suurorg and Nordecon AS (at the time Nordecon Infra AS) were charged with suspicion of attempting to conclude an agreement for distorting competition and to engage in concerted practices, as well as of attempting to offer a bribe which in the course of the proceedings was reclassified to an attempt to grant gratuities.

The criminal proceedings concerning the attempt to grant gratuities were terminated by the Public Prosecutor's Office already earlier, with a ruling issued on 20 June 2012. In the final ruling, the Public Prosecutor's Office found, based on evidence gathered, that the suspicions brought against Erkki Suurorg and Nordecon AS had no basis and terminated the criminal proceedings against them in their entirety.

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 September 2012, the Group's warranties provisions (including current and non-current ones) totalled 1,092 thousand euros. At 30 September 2011, the corresponding figure was 925 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

In the reporting period, the Group did not have to recognise any significant credit losses. The credit risk exposure of the Group's receivables continued 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 was 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.

At the end of the first nine months of 2012, credit losses on the write-down of receivables totalled 233 thousand euros (9M 2011: 28 thousand euros).

The Group has recognised a trade receivable of approximately 2.4 million euros (includes a portion of late payment interest) related to the construction of the Exhibition Building of the Estonian Maritime Museum. Under the contract, determination of whether the claim has merit is at the discretion of the Arbitration Court of the Estonian Chamber of Commerce and Industry. The Group's management is convinced that the claim has merit and has therefore not written the receivable down. Most probably the case will be ruled upon in 2013.

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 (including unused facilities) of 6.2 million euros.

At 30 September 2012, the Group's current assets exceeded its current liabilities 1.08-fold (30 September 2011: 1.18-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 2013 when the loans fall due. 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 items were reported as long-term liabilities, the current ratio would be 1.24.

At the reporting date, the Group's cash and cash equivalents totalled 9,066 thousand euros (30 September 2011: 6,822 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 September 2012, the Group's interest-bearing loans and borrowings totalled 36,555 thousand euros, an increase of 7,837 thousand euros year over year, of which 6,535 thousand euros resulted from an increase in short-term factoring liabilities. Interest expense for the first nine months of 2012 amounted to 799 thousand euros. Compared with the first nine months of 2011, interest expense has increased by 55 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/EONIA) 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 nine months of 2012, fluctuations in the euro-hryvna exchange rate remained below 10%. The Group's net foreign exchange loss for the first nine months of 2012 was 8 thousand euros (9M 2011: a net foreign exchange gain of 35 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

8 November 2012

Avo Ambur

Member of the Board

8 November 2012

Erkki Suurorg

Member of the Board

8 November 2012



Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	30 September 2012	31 December 2011
ASSETS			
Current assets			
Cash and cash equivalents		9,066	9,908
Trade and other receivables	2	49,717	34,645
Prepayments		2,930	2,610
Inventories	3	25,002	24,120
Non-current assets held for sale		0	242
Total current assets		86,715	71,525
Non-current assets			
Investments in equity-accounted investees		338	199
Other investments		26	26
Trade and other receivables	2	2,427	2,504
Investment property		4,929	4,930
Property, plant and equipment	4	8,817	7,437
Intangible assets	4	14,882	14,960
Total non-current assets		31,419	30,056
TOTAL ASSETS		118,134	101,581
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	30,144	19,130
Trade payables		37,256	27,403
Other payables		4,196	4,930
Deferred income		8,334	10,587
Provisions		229	485
Total current liabilities		80,159	62,535
Non-current liabilities			
Loans and borrowings	5, 6	6,411	9,513
Trade payables		198	199
Other payables		96	96
Provisions		963	841
Total non-current liabilities		7,668	10,649
TOTAL LIABILITIES		87,827	73,184
EQUITY			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		-461	-463
Retained earnings		6,193	4,563
Total equity attributable to equity holders of the parent		27,943	26,311
Non-controlling interest		2,364	2,086
TOTAL EQUITY		30,307	28,397
TOTAL LIABILITIES AND EQUITY		118,134	101,581



Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q3 2012	Q3 2011	9M 2012	9M 2011	2011
Revenue	8, 9	54,134	48,831	117,054	103,260	147,802
Cost of sales	10	-50,296	-48,120	-111,028	-103,977	-147,608
Gross profit/loss		3,838	711	6,026	-717	194
Distribution expenses		-63	-74	-253	-238	-317
Administrative expenses	11	-1,437	-1,160	-3,941	-3,284	-4,641
Other operating income	12	254	367	620	746	806
Other operating expenses	12	-289	13	-346	-151	-672
Operating profit/loss		2,303	-143	2,106	-3,644	-4,630
Finance income	13	118	144	459	494	938
Finance expenses	13	-133	-271	-672	-884	-1,086
Net finance expense		-15	-127	-213	-390	-148
Share of profit of equity-accounted investees		90	55	139	104	100
Profit/loss before income tax		2,378	-215	2,032	-3,930	-4,678
Income tax expense		0	-15	-44	-16	-30
Profit/loss for the period		2,378	-230	1,988	-3,946	-4,708
Other comprehensive income/expense:						
Exchange differences on translating foreign operations		55	-61	2	155	-329
Total other comprehensive income/expense for the period		55	-61	2	155	-329
TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE PERIOD		2,433	-291	1,990	-3,791	-5,037
Profit/loss attributable to:						
- Owners of the parent		2,121	-506	1,630	-4,157	-5,304
- Non-controlling interests		257	276	358	211	596
Profit/loss for the period		2,378	-230	1,988	-3,946	-4,708
Total comprehensive income/expense attributable to:						
- Owners of the parent		2,176	-550	1,632	-4,059	-5,924
- Non-controlling interests		257	259	358	268	887
Total comprehensive income/expense		2,433	-291	1,990	-3,791	-5,037
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	0.07	-0.02	0.05	-0.14	-0.17
Diluted earnings per share (EUR)	7	0.07	-0.02	0.05	-0.14	-0.17



Condensed consolidated interim statement of cash flows

EUR '000	9M 2012	9M 2011
Cash flows from operating activities		
Cash receipts from customers ¹	131,577	116,904
Cash paid to suppliers ²	-113,048	-101,479
VAT paid	-4,500	-2,064
Cash paid to and for employees	-12,212	-9,475
Income tax paid/recovered	-55	67
Net cash from operating activities	1,762	3,953
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1,758	-31
Proceeds from sale of property, plant and equipment and intangible assets	363	306
Proceeds from sale of investment property	0	352
Loans granted	-1,007	-151
Repayment of loans granted	94	2,056
Dividends received	0	4
Interest received	0	102
Net cash used in/from investing activities	-2,308	2,638
Cash flows from financing activities		
Proceeds from loans received	4,329	1,795
Repayment of loans received	-2,146	-4,746
Dividends paid	-80	0
Payment of finance lease liabilities	-1,542	-1,401
Interest paid	-859	-886
Other payments	0	-4
Net cash used in financing activities	-298	-5,242
Net cash flow	-844	1,349
Cash and cash equivalents at beginning of period	9,908	5,818
Effect of exchange rate fluctuations	2	-345
Decrease/increase in cash and cash equivalents	-844	1,349
Cash and cash equivalents at end of period	9,066	6,822

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					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
EUR '000							
Balance at							
31 December 2010	19,657	2,558	-233	10,257	32,240	1,199	33,439
Profit/loss for the period	0	0	0	-4,157	-4,157	211	-3,946
Other comprehensive income	0	0	98	0	98	57	155
Reduction of capital reserve		-4	0	0	-4	0	-4
Balance at							
30 September 2011	19,657	2,554	-135	6,100	28,176	1,467	29,643
Balance at							
31 December 2011	19,657	2,554	-463	4,563	26,311	2,086	28,397
Profit for the period	0	0	0	1,630	1,630	358	1,988
Other comprehensive income	0	0	2	0	2	0	2
Dividend distribution	0	0	0	0	0	-80	-80
Balance at							
30 September 2012	19,657	2,554	-461	6,193	27,943	2,364	30,307



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 nine months ended 30 September 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 third quarter and first nine 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 September 2012	31 December 2011
Trade receivables		25,660	14,783
Retentions receivable		3,646	2,544
Receivables from related parties	14	1,148	982
Loans to related parties	14	9,548	8,150
Miscellaneous receivables		1,008	1,057
Total receivables and loans granted		41,010	27,516
Due from customers for contract work		8,707	7,129
Total trade and other receivables		49,717	34,645

Trade receivables have increased due to seasonal growth in operations. The period's impairment losses on receivables totalled 233 thousand euros (30 September 2011: 28 thousand euros) (see note 12).

Non-current portion (EUR '000)	Note	30 September 2012	31 December 2011
Loans to related parties	14	2,036	2,117
Miscellaneous receivables		391	387
Total trade and other receivables		2,427	2,504

NOTE 3. Inventories

EUR '000	30 September 2012	31 December 2011
Raw and other materials	3,716	3,120
Work in progress	6,304	5,330
Properties purchased for sale and development	13,266	13,263
Finished goods	1,716	2,407
Total inventories	25,002	24,120

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first nine months of 2012, additions to property, plant and equipment totalled 2,945 thousand euros and consisted of equipment and construction machinery acquired for the Group's operating activities (including an investment in a new asphalt plant). 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 net gain on the disposals amounted to 518 thousand euros (see note 12) of which 246 thousand euros was not received because the receivable acquired on the sale of the existing asset was offset against the liability incurred on the acquisition of a new asset.

Intangible assets

In the first nine months 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 September 2012	31 December 2011
Finance lease liabilities at end of reporting period	3,718	2,934
Of which payable in less than 1 year	1,435	1,670
Of which payable between 1 and 5 years	2,283	1,264
Base currency EUR	3,718	2,934
Interest rates of contracts denominated in EUR ³	3.0%-8.0%	2.0%-7.0%
Periodicity of payments	Monthly	Monthly
³ Including leases with floating interest rates		
Finance lease payments made (EUR '000)	9M 2012	9M 2011
Principal payments made during the period	1,542	1,401
Interest payments made during the period	67	100
Operating lease payments made (EUR '000)	9M 2012	9M 2011
Payments made for cars	486	523
Payments made for construction equipment	1,116	1,862
Payments made for premises	486	348
Payments made for software	278	265
Total operating lease payments made	2,366	2,998

NOTE 6. Interest-bearing loans and borrowings

EUR '000	Note	30 September 2012	31 December 2011
Short-term bank loans		12,235	9,288
Short-term portion of long-term bank loans		9,062	6,996
Short-term portion of finance lease liabilities	5	1,435	1,670
Factoring liabilities		7,412	1,176
Total short-term loans and borrowings		30,144	19,130
Long-term portion of bank loans		3,144	7,265
Long-term portion of finance lease-liabilities		2,283	1,264
Other long-term loans		984	984
Total long-term loans and borrowings		6,411	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	9M 2012	9M 2011
Profit/loss for the period attributable to owners of the parent	1,630	-4,157
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share	0.05	-0.14
Diluted earnings per share	0.05	-0.14



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.

9 months

EUR '000 9M 2012	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	49,648	332	64,629	3,093	117,702
Inter-segment revenue	-64	-279	-22	-1,628	-1,993
Revenue from external customers	49,584	53	64,607	1,465	115,709
Segment profit/loss	3,770	-110	4,333	245	8,238

EUR '000 9M 2011	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	46,174	2,686	55,925	5,084	109,869
Inter-segment revenue	-104	0	-5,400	-3,433	-8,937
Revenue from external customers	46,070	2,686	50,525	1,651	100,932
Segment profit/loss	-706	-182	1,862	48	1,022

Third quarter

EUR '000 Q3 2012	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	21,198	172	31,843	1,491	54,704
Inter-segment revenue	-64	-177	-2	-923	-1,166
Revenue from external customers	21,134	-5	31,841	568	53,538
Segment profit/loss	1,739	-35	3,118	259	5,081



	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Q3 2011					
Total revenue	19,890	601	28,509	1,542	50,544
Inter-segment revenue	2,560	0	-5,387	-661	-3,489
Revenue from external customers	22,450	601	23,122	881	47,055
Segment profit/loss	-193	-283	2,586	142	2,252

Reconciliation of segment revenues

	9M 2012	Q3 2012	9M 2011	Q3 2011
EUR '000				
Total revenues for reportable segments	114,609	53,213	104,785	49,001
Revenue for other segments	3,093	1,491	5,084	1,542
Elimination of inter-segment revenues	-1,993	-1,166	-8,937	-3,489
Unallocated revenue	1,345	596	2,328	1,777
Total consolidated revenue	117,054	54,134	103,260	48,831

Reconciliation of segment profit

	9M 2012	Q3 2012	9M 2011	Q3 2011
EUR '000				
Total profit for reportable segments	7,993	4,822	974	2,110
Total profit for other segments	245	259	47	142
Elimination of inter-segment profits/losses	-14	22	-16	4
Unallocated profits/losses ⁴	-2,198	-1,265	-1,722	-1,545
Total gross profit/loss	6,026	3,838	-717	711
Unallocated items:				
Distribution expenses	-253	-63	-238	-74
Administrative expenses	-3,941	-1,437	-3,284	-1,160
Other operating income/expenses	274	-35	595	380
Consolidated operating profit/loss	2,106	2,303	-3,644	-143
Finance income	459	118	494	144
Finance expenses	-672	-133	-884	-271
Share of profit of equity-accounted investees	139	90	104	55
Consolidated profit/loss before tax	2,032	2,378	-3,930	-215

⁴ Includes mainly costs that cannot be allocated to a segment or are not directly related to a project but are essential for operating activity.

NOTE 9. Segment reporting – geographical information

	9M 2012	Q3 2012	9M 2011	Q3 2011
EUR '000				
Revenue				
Estonia	115,770	53,544	98,453	46,828
Ukraine	324	172	289	67
Belarus	8	0	2,397	534
Finland	1,296	660	2,255	1,523
Inter-segment eliminations	-344	-242	-134	-121
Total revenue	117,054	54,134	103,260	48,831

NOTE 10. Cost of sales

	9M 2012	9M 2011
EUR '000		
Cost of materials, goods and services used	99,591	93,011
Personnel expenses	9,842	9,051
Depreciation and amortisation expense	1,444	1,661
Other expenses	151	254
Total cost of sales	111,028	103,977



NOTE 11. Administrative expenses

EUR '000	9M 2012	9M 2011
Cost of materials, goods and services used	1,688	1,586
Personnel expenses	1,993	1,492
Depreciation and amortisation expense	185	137
Other expenses	75	69
Total administrative expenses	3,941	3,284

NOTE 12. Other operating income and other operating expenses

Other operating income (EUR '000)	9M 2012	9M 2011
Gain on sale of property, plant and equipment and intangible assets	518	255
Gain on sale of investment property	0	221
Foreign exchange gain	4	204
Other income	98	66
Total other operating income	620	746

Other operating expenses (EUR '000)	9M 2012	9M 2011
Losses on write-off of property, plant and equipment and intangible assets	32	5
Foreign exchange loss	6	44
Impairment losses on receivables	233	28
Membership fees	1	2
Other expenses	74	72
Total other operating expenses	346	151

NOTE 13. Finance income and finance expenses

Finance income (EUR '000)	9M 2012	9M 2011
Interest income on loans	444	479
Foreign exchange gain	4	1
Other finance income	11	14
Total finance income	459	494

Finance expenses (EUR '000)	9M 2012	9M 2011
Interest expense	799	774
Foreign exchange losses	9	125
Other finance expenses	-136	-15
Total finance expenses	672	884

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	9M 2012		9M 2011	
Volume of transactions performed	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	258	2	301	4
Companies of AS Nordic Contractors group	18	3,129	665	776
Equity-accounted investees	238	8	0	0
Companies connected with a member of the council	57	0	51	0
Total	571	3,139	1,017	780

EUR '000	9M 2012		9M 2011	
Volume of transactions performed	Purchases	Sales	Purchases	Sales
Construction services	271	3,125	663	741
Lease and other services	300	14	354	39
Total	571	3,139	1,017	780

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 361 thousand euros (9M 2011: 338 thousand euros), interest income on loans to joint ventures of 83 thousand euros (9M 2011: 80 thousand euros) and interest income on loans to other related parties of 0 thousand euros (9M 2011: 61 thousand euros).

Receivables from and liabilities to related parties at period-end

EUR '000	30 September 2012		31 December 2011	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	1	11	1	42
Companies of AS Nordic Contractors group	503	0	1	0
Associates - receivables	644	1	980	0
Associates – loans and interest	9,732	0	8,528	0
Joint ventures – loans and interest	1,852	0	1,739	0
Total	12,732	12	11,249	42

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

The remuneration expenses of the members of the council of Nordecon AS for the first nine months of 2012, including associated social security charges, amounted to 176 thousand euros (9M 2011: 69 thousand euros). The remuneration expenses of the members of the board of Nordecon AS, including social security charges, totalled 387 thousand euros (9M 2011: 204 thousand euros). The remuneration expenses of both the council and the board include the partial provisions made in the third quarter for their potential performance bonuses, which are linked to the Group's operating results.



Statements and signatures

Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the third quarter and first nine months of 2012 and confirms that:

- the policies applied on the preparation of the consolidated interim financial statements comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
- the consolidated interim financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities, 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

8 November 2012

Avo Ambur

Member of the Board

8 November 2012

Erkki Suurorg

Member of the Board

8 November 2012