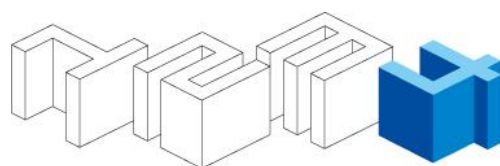




**Financial report for the fourth  
quarter and twelve months of 2012**  
(unaudited)

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## Financial report for the fourth quarter and twelve months of 2012 (unaudited)

<b>Business name</b>	Nordecon AS
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<b>Corporate website</b>	<a href="http://www.nordecon.com">www.nordecon.com</a>
<b>Core business activities</b>	Construction of buildings Civil engineering Specialised construction activities Architectural and engineering activities
<b>Financial year</b>	1 January 2012 – 31 December 2012
<b>Reporting period</b>	1 January 2012 – 31 December 2012
<b>Council</b>	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
<b>Board</b>	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
<b>Auditor</b>	KPMG Baltics OÜ



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## ABOUT THE GROUP

Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) began operating as a construction company in 1989. Since then, we have grown to become one of the leading construction groups in Estonia and a strong player in all segments of the construction market.

For years, our 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 and through 2013

In line with the strategy approved by the council in 2010, during the current strategy period the Group must focus on doing business in its main market, Estonia, where we are 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 continue implementing the plans made for internal restructuring and proactive cost and risk management. Only this will allow improving profitability and achieving business growth compared with the downturn of 2009 to 2011. 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 action plan for 2012-2013 supports the Group's recovery from the slump and prepares ground for seizing the opportunities that may be offered by market growth from 2015.

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 and through 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 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).

We did not enter any new operating segments in Estonia.

### Foreign operations

#### Latvia

During the period, there were no changes in our Latvian operations. We have currently no construction contracts in progress in Latvia and no subsidiaries domiciled in Latvia.

#### Lithuania

During the period, there were no changes in our Lithuanian operations. 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. In 2011 the Group's management decided that after the completion of the contract the Group would discontinue its operations in Belarus. By the date of release of this report, the Belarusian subsidiary has been liquidated.

#### Ukraine

There were no changes in our Ukrainian operations during the period under review. The economic and political situation in the country did not improve and this had an adverse impact on our opportunities for expanding business operations.

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.

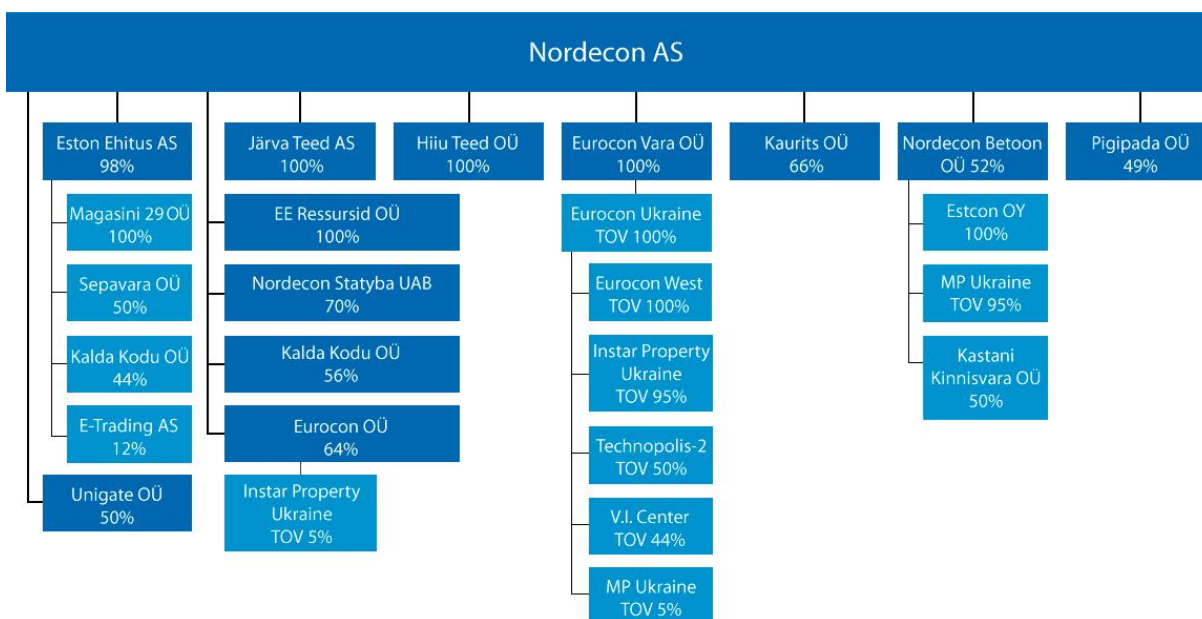
#### Finland

There were no changes in our Finnish operations during the period under review. The Group's subsidiary Nordecon Betoon OÜ together with its Finnish subsidiary Estcon Oy continued providing subcontracting services in the concrete works sector in Finland.



## Group structure

The Group's structure at 31 December 2012, including interests in subsidiaries and associates<sup>1</sup>



<sup>1</sup> The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, Infra Ehitus OÜ, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9 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

#### Unigate OÜ

In October, the shareholders of Unigate OÜ signed a notarised plan of division according to which some properties subject to nature conservation restrictions were separated from the company and were divided equally between the shareholders. In line with the division plan, the properties were transferred to companies established by the shareholders. Nordecon AS established four subsidiaries for accepting the properties (OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9). The subsidiaries' sole shareholder is Nordecon AS. The subsidiaries did not conduct any business operations in 2012.

#### 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 any business operations in 2012.

#### Eurocon Stroi IOOO

In November, we completed the liquidation of our Belarusian subsidiary Eurocon Stroi IOOO in which Nordecon AS had a 100% stake. The entity was liquidated in connection with the Group's exit from the Belarusian construction market (see also the chapter *Changes in the Group's business operations in the reporting period*).

### Significant changes in the Group's structure after the reporting date

#### Pigipada OÜ

In January, Nordecon AS sold its 49% interest in the associate Pigipada OÜ to its subsidiary Hiiu Teed OÜ. The core business of Pigipada OÜ is refining oil products. In particular, the entity produces bitumen emulsion, which is a binder required in surfacing and asphalt laying works. The purpose of the intra-group restructuring transaction was to allow the main consumer of Pigipada OÜ's output to acquire a stake in the entity and thereby to create synergies between the two companies that operate in the same value chain.



## Financial review

### Financial performance

Nordecon Group's unaudited gross profit for 2012 was 8,222 thousand euros (2011: 194 thousand euros). The upswing in gross profit and gross margin (2012: 5.2% compared with 2011: 0.1%) was underpinned by the absence of loss-generating contracts, which weakened our performance in 2011.

The key factors that helped improve the margins were Group-wide austerity measures enforced in 2010 in response to market slump and internal restructuring and streamlining. Although volume growth, which emerged in 2011, has clearly improved the situation in the Estonian construction market, we will have sustain our efforts to maintain and enhance the results achieved. It should be kept in mind that the profits of long-term construction contracts are earned based on the stage of completion of contract activity, which means that profit is recorded gradually over the contract term.

The rise in profitability was facilitated by changes in the external environment. Thanks to the investments made by the public sector as well as the private sector whose activity increased notably in 2012, the Estonian construction market sustained growth through the year. At the same time, the prices of construction inputs and subcontracting services remained relatively stable. The combination of those factors created a sound basis for a rise in construction contracts' average profit margin. Although competition in the construction market continues to be fierce, in certain segments (e.g. road construction and construction of water and wastewater networks) the number of players has stabilised, alleviating pressure on the bidders' profit margins. Unfortunately, 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. Nordecon continues to acknowledge the fact that long-term construction contracts involve the risk of growth in input prices and remains committed to prioritizing the profitability of contracts secured over increasing or maintaining the revenue figures.

Administrative expenses for 2012 totalled 5,385 thousand euros (2011: 4,641 thousand euros). The figure for 2012 includes non-recurring consulting fees incurred for adjusting the Group's operating and financial strategy in the changing environment and the provisions made for performance bonuses. The ratio of administrative expenses to revenue was 3.4% (2011: 3.1%). Our cost-control measures continue to yield strong results allowing us to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

The Group's operating profit for 2012 was 2,692 thousand euros (2011: an operating loss of 4,630 thousand euros). EBITDA was positive at 4,837 thousand euros (2011: negative at 1,819 thousand euros).

The Group ended the year with a net profit of 1,931 thousand euros (2011: a net loss of 4,708 thousand euros). The profit attributable to owners of the parent, Nordecon AS, was 1,479 thousand euros (2011: a loss of 5,304 thousand euros).

### Cash flows

Operating activities generated a net cash inflow of 8,941 thousand euros (2011: 8,523 thousand euros). Operating cash flow was strongly influenced by cyclical fluctuations in project-related cash flows. The settlement terms granted to customers are 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 mismatch between cash inflows and outflows with factoring and overdraft facilities for meeting working capital requirements.

VAT and labour-related payments grew. In 2012, a significant amount of building materials was purchased from abroad without the possibility to recover input VAT but on the sale of services in Estonia VAT had to be paid. The sum of VAT payments was also influenced by the fact that we generated considerably more gross profit. In 2011, completion of loss-making contracts resulted in prepaid VAT, which was used, among other things, to offset labour tax liabilities. In 2012 we did not have such offsetting opportunities. Moreover, labour related payments increased because of performance pay, which was introduced thanks to generation of profit.

Cash flows from investing activities resulted in a net outflow of 2,705 thousand euros (2011: a net inflow of 2,022 thousand euros). The main reasons for the net outflow were loans to associates including a loan given for privatising the plot of a real estate project in Ukraine. Payments for property, plant and equipment (including a new and more productive asphalt plant acquired through a sale and leaseback transaction) accounted for a similar proportion as loans granted. In the comparative period, net cash flow was positive on account of settlement of loans granted.





Financing activities resulted in a net cash outflow of 5,913 thousand euros (2011: a net outflow of 5,996 thousand euros). The net amount of loan receipts and repayments was negative at 2,760 thousand euros (2011: negative at 2,982 thousand euros). The volume of loans received was increased by the acquisition of a new asphalt plant through a sale and leaseback transaction. Dividends paid comprise profit distributions to a subsidiary's non-controlling shareholders.

At 31 December 2012, the Group's cash and cash equivalents totalled 10,231 thousand euros (31 December 2011: 9,908 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	12M 2012	12M 2011	12M 2010
Revenue (EUR'000)	159,608	147,802	99,312
Revenue growth/decrease, %	8.0%	48.8%	-35.8%
Net profit/loss (EUR'000)	1,931	-4,708	-12,738
Profit/loss attributable to owners of the parent (EUR'000)	1,479	-5,304	-11,810
Weighted average number of shares	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.05	-0.17	-0.38
Administrative expenses to revenue, %	3.4%	3.1%	4.9%
Administrative expenses to revenue (rolling)	3.4%	3.1%	4.9%
EBITDA (EUR'000)	4,837	-1,819	-5,375
EBITDA margin, %	3.0%	-1.2%	-5.4%
Gross margin, %	5.2%	0.1%	-0.7%
Operating margin, %	1.7%	-3.1%	-9.0%
Operating margin excluding gains on asset sales, %	1.4%	-3.5%	-9.4%
Net margin, %	1.2%	-3.2%	-12.8%
Return on invested capital, %	5.2%	-5.9%	-15.8%
Return on equity, %	6.6%	-15.2%	-32.6%
Equity ratio, %	27.1%	28.0%	35.1%
Gearing, %	33.7%	32.8%	42.3%
Current ratio	1.08	1.14	1.39

As at 31 December	2012	2011	2010
Order book (EUR'000)	127,259	134,043	85,607

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 2012, roughly 2% of the Group's revenue was generated outside Estonia. In 2011, foreign operations accounted for 3% of the Group's revenue.

	12M 2012	12M 2011	12M 2010
Estonia	98%	97%	94%
Ukraine	0%	0%	2%
Belarus	0%	1%	3%
Finland	2%	2%	1%

The decline in foreign revenues results from discontinuance of operations in Belarus (see also the chapter *Changes in the Group's business operations in the reporting period*). Finnish revenues comprise revenue from concrete works. We expect the contribution of foreign markets to remain at a similar level in 2013.

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 unaudited revenue for 2012 was 159,608 thousand euros, 8% up on the 147,802 thousand euros generated in 2011. 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 lasting for over 12 months. The first half of 2012 was also successful in terms of winning new contracts.

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

In 2012, the revenues of our Infrastructure segment were expectedly larger than those of our Buildings segment, the unaudited figures for the two segments being 89,184 thousand euros and 66,922 thousand euros respectively. The corresponding figures for 2011 were 72,735 thousand euros and 70,357 thousand euros (see note 8). Compared with 2011, the Infrastructure segment has increased revenue, mostly in the road construction sub-segment. The revenues of the Buildings segment have declined because most of the work under some major public procurement contracts (e.g. the construction of the Exhibition Building of the Estonian Maritime Museum) was done in 2011.

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 a major proportion (65%) of contracts in the Group's order book belongs to the Infrastructure segment. Despite this, in previous periods the segments' revenues have been more or less equal because building construction contracts have a shorter term than those of infrastructure construction. Infrastructure contracts have a longer term (e.g. road maintenance contracts) and their contribution to realised revenue is therefore comparatively smaller.



Revenue distribution between segments <sup>2</sup>	12M 2012	12M 2011	12M 2010
Buildings	42%	48%	48%
Infrastructure	58%	52%	52%

<sup>2</sup> 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 although volumes shrank compared with the previous year. In terms of work performed, the largest projects of 2012 were the construction of the Ämari Air Base and the Estonian embassy in Kiev. During the year, group entities built several family and care home complexes across Estonia in the framework of the national social welfare program. 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 encouraged private sector investments in the commercial buildings sub-segment. During the year, we began building five new commercial buildings – three in Tallinn, one in Tartu and one in Narva. Although private sector investments grew visibly year over year, their relative scarcity compared with public sector investments remains a problem for the entire construction market.

In the industrial and warehouse facilities sub-segment private sector investments grew slightly but most of the revenue still resulted from contracts performed for the agricultural sector. Compared with 2011, their contribution declined because the support allocated from the EU structural funds that co-finance the projects decreased.

Apartment buildings were built for non-Group customers, the Group acting as a general contractor, not a developer.

Revenue distribution within the Buildings segment	12M 2012	12M 2011	12M 2010
Commercial buildings	26%	12%	19%
Industrial and warehouse facilities	35%	40%	36%
Public buildings	36%	45%	35%
Apartment buildings	3%	3%	10%

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.

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 in summer 2012.

Similarly to previous years, a major share of the revenue of the Infrastructure segment resulted from other engineering, i.e. the construction of water and wastewater networks financed with the support of the EU structural funds across Estonia. The sub-segment's turnover remained stable but its contribution dropped because the revenues of other sub-segments increased.

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

Revenue distribution within the Infrastructure segment	12M 2012	12M 2011	12M 2010
Road construction and maintenance	51%	47%	62%
Specialist engineering (including hydraulic engineering)	16%	10%	1%
Other engineering	27%	35%	28%
Environmental engineering	6%	8%	9%



## Order book

At 31 December 2012, our order book stood at 127,259 thousand euros, being 5% smaller than a year ago.

Partly, the order book has decreased in connection with the performance of major contracts secured in 2011 (e.g. the design and build of the Aruvalla-Kose road section and construction of berths at Sillamäe port). Addition of large contracts is irregular. Initially new contracts increase the order book considerably (positive impact on order book), but as they are performed, their balance declines (negative impact on order book).

Some of the decline may also be attributed to changes taking place in the construction market. Due to market shrinkage, competition in the public buildings sub-segment has intensified, reducing the proportion of such contracts in our portfolio.

On the other hand, we have been able to increase our order book in the commercial and apartment buildings sub-segments (Buildings segment) and in other engineering (construction of water and wastewater networks) and environmental engineering sub-segments (Infrastructure segment). The order book used to include the outstanding balance of the Tivoli housing development project in Tallinn city centre of 12,814 thousand euros. On 4 February 2013, Tivoli Arendus OÜ sent us a notice of termination of the contract, which in our opinion is baseless. Accordingly, as at the date of release of this report Nordecon AS considers the notice of termination unfounded and the contract still effective. However, in light of the circumstances, we believe that it is unlikely that construction work can continue under the same contract.

<b>As at 31 December</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Order book (EUR'000)	127,259	134,043	85,607

At 65% the Infrastructure segment continues to account for a major share of the total order book (31 December 2011: 80%).

Between the reporting date (31 December 2012) and the date of release of this report, Group companies have been awarded construction contracts of approximately 3,108 thousand euros.

## People

### Staff and personnel expenses

At the end of 2012, the Group (the parent and the subsidiaries) employed, on average, 764 people including 367 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.

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

	<b>12M 2012</b>	<b>12M 2011</b>	<b>12M 2010</b>
ETP	367	351	362
Workers	397	380	412
<b>Total average</b>	<b>764</b>	<b>731</b>	<b>774</b>

The Group's personnel expenses for 2012 including all taxes totalled 16,803 thousand euros, 18% up on 2011 when personnel expenses were 14,225 thousand euros. The growth in personnel expenses is mainly attributable to performance pay provided to project staff and recognition of provisions for performance bonuses payable to our management and support staff. Selective salary increases had less impact.

The remuneration of the members of the council of Nordecon AS for 2012, including social security charges, amounted to 256 thousand euros (2011: 92 thousand euros). The amount has increased in connection with the decision of Nordecon AS's annual general meeting to increase the council's remuneration as from 2012. The remuneration of the members of the board of Nordecon AS, including social security charges, totalled 597 thousand euros (2011: 316 thousand euros). The figure includes the termination benefits paid to the member of the board who left the Group in spring 2012. The remuneration expenses of both the council and the board include the provisions made for their performance bonuses, which are calculated based on the Group's consolidated financial results (in 2011 no bonus provisions were made).



### Labour productivity and labour cost efficiency

In 2012 nominal labour productivity grew by 3.3%, lagging somewhat behind revenue growth (8%). Management has acknowledged this. Improving labour productivity remains a priority and we see untapped resources in both general and daily construction management (including IT development). Nominal labour cost efficiency has decreased due to the provision of performance bonuses, which were not paid in 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:

	12M 2012	12M 2011	12M 2010
Nominal labour productivity (rolling), (EUR'000)	208.9	202.3	128.3
Change against the comparative period, %	3.3%	57.7%	-6.3%
Nominal labour cost efficiency (rolling), (EUR'000)	9.5	10.4	6.9
Change against the comparative period, %	-8.6%	51.6%	3.0%

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 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 Väokivi, AS Eesti Energia, etc). He is active in 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 active in 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 football and regional education in Estonia.

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

<b>Name of security</b>	Nordecon AS ordinary share
<b>Issuer</b>	Nordecon AS
<b>ISIN code</b>	EE3100039496
<b>Ticker symbol</b>	NCN1T
<b>Nominal value</b>	No par value <sup>3</sup>
<b>Total number of securities issued</b>	30,756,728
<b>Number of listed securities</b>	30,756,728
<b>Listing date</b>	18 May 2006
<b>Market</b>	NASDAQ OMX Tallinn, Baltic Main List
<b>Industry</b>	Construction and engineering
<b>Indexes</b>	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

<sup>3</sup> 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.

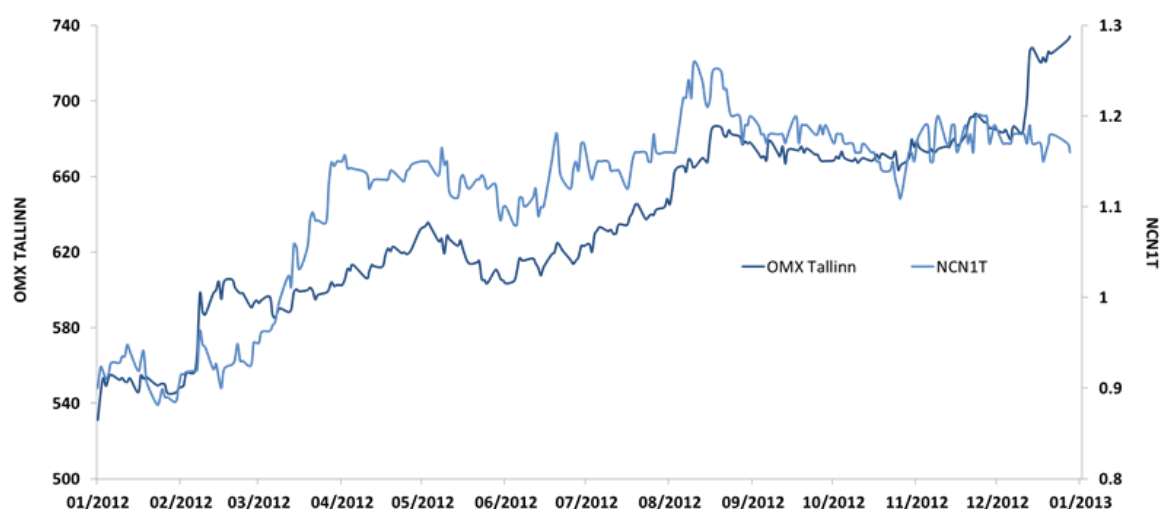
### Movements in the price and turnover of the Nordecon AS share in 2012

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 index in 2012



Index/equity	1 January 2012*	31 December 2012	+/-%
OMX Tallinn	531.17	734.20	+38.22
NCN1T	EUR 0.90	EUR 1.16	+28.89

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

## Summarised trading results

### Share trading history

Price (EUR)	12M 2012	12M 2011	12M 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	1.16	0.90	1.40
Traded volume (number of securities traded)	3,425,060	4,161,002	8,237,449
Turnover, millions	3.77	5.08	12.70
Listed volume (31 December), thousands	30,757	30,757	30,757
Market capitalisation (31 December), millions	35.68	27.68	43.03

## Shareholder structure

### Largest shareholders of Nordecon AS at 31 December 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	1,589,458	5.17
Luksusjaht AS	1,548,125	5.03
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 31 December 2012

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	4	70.40
Shareholders with interest between 1% and 5%	4	7.53
Shareholders with interest below 1%	1,958	22.07
<b>Total</b>	<b>1,966</b>	<b>100.00</b>

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

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

<sup>4</sup> Companies controlled by the individual

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

Board		Number of shares	Ownership interest (%)
Jaano Vink (OÜ Brandhouse) <sup>5</sup>	Chairman of the Board	37,921	0.12
Avo Ambur	Member of the Board	32,322	0.11
Erkki Suurorg	Member of the Board	0	0.00
<b>Total</b>		<b>70,243</b>	<b>0.23</b>

<sup>5</sup> Companies controlled by the individual

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 2013

- The bulk of construction work will be done in the infrastructure segment but the segment's lead over building construction will diminish at an increasing pace. Private sector investments, which will grow compared with 2012, will mostly be channelled into the buildings segment. Moreover, the public sector will contribute to building construction through two major contracts - the construction of a new main building for the Estonian National Museum and the Maarjamõisa medical campus for Tartu University Hospital. The turnover of the infrastructure segment, on the other hand, will be undermined by the depletion of funds allocated from the EU budget for the period 2007-2013.
- The construction market will remain disproportionately reliant on public procurement and projects executed with the support of the EU structural funds. In the last year of the EU budget period, the volume of new procurements will decrease because most funds have already been allocated. Co-financing terms generally require that a project should be completed during the budget period. Thus, most of the remaining procurements will be announced in the first half of 2013. On the positive side, the EU multi-annual financial framework for 2014-2020 is ultimately being finalised. If swift and decisive action is taken, preparations for construction tenders to be announced in 2014 may already commence in the second half of 2013.
- The industry will see further consolidation, 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 too large. Based on the past three years' experience it is likely that stiff competition and insufficient demand will induce some general contractors to go slowly out of business rather than merge with another or exit from the market. We will see more and more frequently that three or four smaller players will form a consortium to bid for major procurement contracts, meet stringent tendering conditions and secure the required funding.
- Competition will intensify in all segments of the construction market. The average number of bidders for a contract has increased and there is already a notable gap between the lowest bids made by the winners and the average bids. The situation is somewhat similar to 2009 when anticipation of a fall in demand triggered a rapid fall in construction prices, which caused a decline in the prices of many construction inputs. However, currently the prices of construction inputs seem unaffected and companies that are banking on their decrease in the bidding phase may run into difficulty. Competition is exerting strong pressure on profit margins but many companies have learned from past mistakes and are trying to maintain their margins at least at the level of 2012.
- In new housing development, the success of a project will depend on the developer's ability to control the input prices included in its business plan and thus to set an affordable sales price. The offering of new residential real estate cannot be significantly increased because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Developers that can create or find an unexploited niche are more likely to succeed.
- The contracts signed with public sector customers will continue to impose tough conditions, including extensive obligations, strict sanctions, different financial guarantees, extremely long settlement terms, etc. Contractors cannot implement more optimal solutions identified in the construction phase that would reduce the construction or operating costs of the procured asset without sanctions because procurement terms do not allow this. In a situation where public procurement is based on underbidding, the above factors increase the risks of all market participants.
- The prices of construction inputs will remain stable. Local subcontracting prices may decrease due to weakening demand but considering the subcontractors' financial and human resources, the decline could not be substantial or long-lasting. In some areas, price fluctuations will continue to be unpredictable and notably greater and hard or even impossible to influence (petroleum and metal products, some materials and equipment). On the whole, input prices will remain at a level that constitutes a major obstacle to private customers' investment decisions.
- The situation in the labour market will be relatively stable but not encouraging. There will be a shortage of qualified labour (including project and site managers). In 2013 there will not be any overall rise in the base wage paid by construction companies, which have to maintain tight cost control, but pressure for a wage



increase will remain strong. Labour migration to the Nordic countries will remain steady and despite certain market shrinkage (particularly in Finland), the number of job seekers is not likely to increase.

### Latvia and Lithuania

In our opinion, the Latvian construction market, which was hit by a severe downturn a few years ago, has not achieved sufficient stability and similarly to Estonia in 2013 it will probably see shrinkage in public sector demand. Therefore, the Group is not going to enter the Latvian construction market permanently in 2013.

In the next few years we may 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 strategy for the future, i.e. the objective of operating in our neighbouring construction markets through local subsidiaries.

We have suspended the operations of our Lithuanian subsidiary, Nordecon Statyba UAB. We are monitoring market developments and may resume our Lithuanian operations in the coming years on a project basis. Temporary suspension of operations does not cause any major costs for the Group and does not change our strategy for the future, 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. Regardless of this, we will continue our business in Ukraine in 2013. There are some signs that investment activity in Ukraine may pick up in 2013 although the economic and political risks do not allow us to expect any rapid changes. We will monitor the situation in the Ukrainian construction market closely and will be ready to carry out additional restructuring at the companies involved. We will continue seeking opportunities for exiting the conserved real estate projects or signing a construction contract with a potential new owner.

### Finland

In the Finnish market we offer mainly subcontracting services in the field of concrete works but based on experience gained, we are going to deliver some more complex services in 2013. The local concrete works market provides opportunities for competing for customers who wish to purchase all concrete works from one reliable company. 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 coming years, the Estonian construction market will be heavily dependent on public sector investments. A significant proportion of those investments will be funded with the assistance of the EU structural funds. The availability of EU support is relatively certain until the end of the current budget period (2007-2013). According to financing terms, a supported project has to be completed by the end of the budget period. This means that in 2013 the number of new projects will decrease significantly. We do not yet know the expenditures of the EU financial framework for 2014-2020 that will be designated for investments involving construction work. Although the amounts allocated to Estonia under the cohesion policy programmes have increased, the national priorities in utilising those amounts may have changed. However, the planned investments will have a significant and direct impact on the business volumes of construction companies.

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.

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 31 December 2012, the Group's warranties provisions (including current and non-current ones) totalled 1,407 thousand euros. At 31 December 2011, the corresponding figure was 1,192 thousand euros.

In addition to managing the risks, which are directly related to construction operations, in recent years the Group has sought to mitigate also the risks 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. Usually the errors made in the planning stage are 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 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.

In 2012, credit losses on the write-down of receivables totalled 239 thousand euros (2011: gain on the reversal of prior write-downs totalled 8 thousand euros).

The Group has recognised a trade receivable of approximately 2.4 million euros (includes a portion of late payment interest) due from the customer 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 but sometimes up to 100 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 continued to work with the banks in implementing its financing program for 2011-2014, which was developed with the assistance of one of the world's leading consulting firms, Roland Berger Strategy Consultants. In line with the program, in 2012 the banks supported the Group's liquidity position by refinancing long-term loans and by granting repayment holidays for loan principal. In addition, the banks granted the Group additional short-term overdraft facilities of approximately 6.2 million euros for meeting working capital requirements. The Group repaid the loans received under the financing program by the year-end, which increases the probability that relevant limits will be made available again in 2013. We will begin negotiating the current year's financing program with the banks in the first quarter of the year.

At 31 December 2012, the Group's current assets exceeded its current liabilities 1.08-fold (31 December 2011: 1.14-fold). Bank loans made 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 11,501 thousand euros that will probably be refinanced. If the items were reported as long-term liabilities, the current ratio would be 1.27.

At the reporting date, the Group's cash and cash equivalents totalled 10,231 thousand euros (31 December 2011: 9,908 thousand euros).

### Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for floating interest rates is mostly Euribor. At 31 December 2012, the Group's interest-bearing loans and borrowings totalled 30,855 thousand euros, an increase of 2,213 thousand euros year over year. Interest expense for 2012 amounted to 1,097 thousand euros. Compared with 2011, interest expense increased by 104 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 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.

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 was not exposed to currency risks related to the Belarusian ruble (BYR) because the Group then practically discontinued its operations in Belarus. The exchange rate of the Ukrainian hryvna against the euro has been stable since 2010. In 2012, fluctuations in the euro-hryvna exchange rate remained below 10%. The Group's net foreign exchange loss for 2012 was 95 thousand euros (2011: a net foreign exchange gain of 168 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 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

13 February 2013

Avo Ambur

Member of the Board

13 February 2013

Erkki Suurorg

Member of the Board

13 February 2013





## Condensed consolidated interim financial statements

### Condensed consolidated interim statement of financial position

EUR '000				
As at 31 December	Note	2012		2011
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		10,231		9,908
Trade and other receivables	2	44,133		34,645
Prepayments		1,840		2,610
Inventories	3	26,235		24,120
Non-current assets held for sale		0		242
<b>Total current assets</b>		<b>82,439</b>		<b>71,525</b>
<b>Non-current assets</b>				
Investments in equity-accounted investees		202		199
Other investments		26		26
Trade and other receivables	2	503		2,504
Investment property		4,930		4,930
Property, plant and equipment	4	8,851		7,437
Intangible assets	4	14,857		14,960
<b>Total non-current assets</b>		<b>29,369</b>		<b>30,056</b>
<b>TOTAL ASSETS</b>		<b>111,808</b>		<b>101,581</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Loans and borrowings	5, 6	27,185		19,130
Trade payables		32,134		27,403
Other payables		5,022		4,930
Deferred income		11,404		10,587
Provisions		521		485
<b>Total current liabilities</b>		<b>76,266</b>		<b>62,535</b>
<b>Non-current liabilities</b>				
Loans and borrowings	5, 6	3,671		9,513
Trade payables		259		199
Other payables		96		96
Provisions		1,210		841
<b>Total non-current liabilities</b>		<b>5,236</b>		<b>10,649</b>
<b>TOTAL LIABILITIES</b>		<b>81,502</b>		<b>73,184</b>
<b>EQUITY</b>				
Share capital		19,657		19,657
Statutory capital reserve		2,554		2,554
Translation reserve		-404		-463
Retained earnings		6,042		4,563
<b>Total equity attributable to equity holders of the parent</b>		<b>27,849</b>		<b>26,311</b>
<b>Non-controlling interests</b>		<b>2,457</b>		<b>2,086</b>
<b>TOTAL EQUITY</b>		<b>30,306</b>		<b>28,397</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>111,808</b>		<b>101,581</b>



## Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q4 2012	Q4 2011	12M 2012	12M 2011
Revenue	8, 9	42,554	44,542	159,608	147,802
Cost of sales	10	-40,358	-43,630	-151,386	-147,608
<b>Gross profit</b>		<b>2,196</b>	<b>912</b>	<b>8,222</b>	<b>194</b>
Marketing and distribution expenses		-136	-79	-389	-317
Administrative expenses	11	-1,444	-1,357	-5,385	-4,641
Other operating income	12	190	60	810	806
Other operating expenses	12	-220	-521	-566	-672
<b>Operating profit/loss</b>		<b>586</b>	<b>-986</b>	<b>2,692</b>	<b>-4,630</b>
Finance income	13	163	444	622	938
Finance costs	13	-576	-202	-1,248	-1,086
<b>Net finance costs</b>		<b>-413</b>	<b>242</b>	<b>-626</b>	<b>-148</b>
Share of profit/loss of equity-accounted investees		-218	-4	-79	100
<b>Profit/loss before income tax</b>		<b>-45</b>	<b>-748</b>	<b>1,987</b>	<b>-4,678</b>
Income tax expense		-12	-14	-56	-30
<b>Profit/loss for the period</b>		<b>-57</b>	<b>-762</b>	<b>1,931</b>	<b>-4,708</b>
<b>Other comprehensive income/expense:</b>					
Exchange differences on translating foreign operations		57	-484	59	-329
<b>Total other comprehensive income/expense for the period</b>		<b>57</b>	<b>-484</b>	<b>59</b>	<b>-329</b>
<b>TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE PERIOD</b>		<b>0</b>	<b>-1,246</b>	<b>1,990</b>	<b>-5,037</b>
<b>Profit/loss attributable to:</b>					
- Owners of the parent		-151	-1,147	1,479	-5,304
- Non-controlling interests		94	385	452	596
<b>Profit/loss for the period</b>		<b>-57</b>	<b>-762</b>	<b>1,931</b>	<b>-4,708</b>
<b>Total comprehensive income/expense attributable to:</b>					
- Owners of the parent		-94	-1,865	1,538	-5,924
- Non-controlling interests		94	619	452	887
<b>Total comprehensive income/expense</b>		<b>0</b>	<b>-1,246</b>	<b>1,990</b>	<b>-5,037</b>
<b>Earnings per share attributable to owners of the parent:</b>					
Basic earnings per share (EUR)	7	0.00	-0.04	0.05	-0.17
Diluted earnings per share (EUR)	7	0.00	-0.04	0.05	-0.17



## Condensed consolidated interim statement of cash flows

EUR '000	12M 2012	12M 2011
<b>Cash flows from operating activities</b>		
Cash receipts from customers <sup>1</sup>	193,524	185,147
Cash paid to suppliers <sup>2</sup>	-161,447	-160,805
VAT paid	-6,192	-2,384
Cash paid to and for employees	-16,888	-13,476
Income tax paid/recovered	-56	41
<b>Net cash from operating activities</b>	<b>8,941</b>	<b>8,523</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-1,792	-58
Proceeds from sale of property, plant and equipment and intangible assets	379	340
Loans granted	-1,709	-213
Repayment of loans granted	399	1,745
Dividends received	0	4
Interest received	18	204
<b>Net cash used in/from investing activities</b>	<b>-2,705</b>	<b>2,022</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans received	3,190	1,925
Repayment of loans received	-5,950	-4,907
Dividends paid	-80	0
Payment of finance lease liabilities	-1,967	-1,921
Interest paid	-1,106	-1,089
Other payments	0	-4
<b>Net cash used in financing activities</b>	<b>-5,913</b>	<b>-5,996</b>
<b>Net cash flow</b>	<b>323</b>	<b>4,549</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>9,908</b>	<b>5,818</b>
Effect of exchange rate fluctuations	0	-459
Increase in cash and cash equivalents	323	4,549
<b>Cash and cash equivalents at end of period</b>	<b>10,231</b>	<b>9,908</b>

<sup>1</sup> Line item *Cash receipts from customers* includes VAT paid by customers.

<sup>2</sup> 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 interests	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>EUR '000</b>							
<b>Balance at 31 December 2010</b>	<b>19,657</b>	<b>2,558</b>	<b>-232</b>	<b>10,257</b>	<b>32,240</b>	<b>1,199</b>	<b>33,439</b>
Profit/loss for the period	0	0	0	-5,304	-5,304	596	-4,708
Other comprehensive expense	0	0	-231	0	-231	-98	-329
Reduction of capital reserve		-4	0	0	-4	0	-4
Changes in non-controlling interests	0	0	0	-389	-389	389	0
Effect of rounding	-	-	-	-1	-1	-	-1
<b>Balance at 31 December 2011</b>	<b>19,657</b>	<b>2,554</b>	<b>-463</b>	<b>4,563</b>	<b>26,311</b>	<b>2,086</b>	<b>28,397</b>
<b>Balance at 31 December 2011</b>	<b>19,657</b>	<b>2,554</b>	<b>-463</b>	<b>4,563</b>	<b>26,311</b>	<b>2,086</b>	<b>28,397</b>
Profit for the period	0	0	0	1,479	1,479	452	1,931
Other comprehensive income	0	0	59	0	59	0	59
Dividend distribution	0	0	0	0	0	-80	-80
Effect of rounding	-	-	-	-	-	-1	-1
<b>Balance at 31 December 2012</b>	<b>19,657</b>	<b>2,554</b>	<b>-404</b>	<b>6,042</b>	<b>27,849</b>	<b>2,457</b>	<b>30,306</b>



## 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 twelve months ended 31 December 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 fourth quarter and twelve 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.

#### Changes in presentation

The comparative figures on 2011 presented in these condensed consolidated interim financial statements are based on audited information and are therefore not fully comparable with the figures presented in the unaudited condensed consolidated interim financial statements for the fourth quarter and 12 months of 2011. The figures for the fourth quarter of 2011 have been restated based on audited data.

The main adjustments made in the audited financial statements for 2011 compared with the preliminary information were as follows:

- because of adjustments made to the stage of completion of contract activity, revenue and cost of sales were reduced by approximately 1.8 million euros (there was no effect on the result of operations; the reduction is recognised in the results for the fourth quarter of 2011);
- based on information obtained after the disclosure of the interim financial statements, goodwill and non-current assets held for sale were written down by approximately 0.5 million euros (the write-down is recognised within other operating expenses for the fourth quarter of 2011).



## NOTE 2. Trade and other receivables

Current portion (EUR '000)	Note	31 December 2012	31 December 2011
Trade receivables		20,408	14,783
Retentions receivable		4,479	2,544
Receivables from related parties	14	1,016	982
Loans to related parties	14	11,525	8,150
Miscellaneous receivables		1,014	1,057
<b>Total receivables and loans granted</b>		<b>38,442</b>	<b>27,516</b>
Due from customers for contract work		5,691	7,129
<b>Total trade and other receivables</b>		<b>44,133</b>	<b>34,645</b>

Trade receivables (including retentions receivable) increased mostly through growth in business operations. The period's impairment losses on receivables totalled 239 thousand euros (31 December 2011: write-downs and reversals of write-downs resulted in a net gain of 8 thousand euros) (see note 12).

Non-current portion (EUR '000)	Note	31 December 2012	31 December 2011
Loans to related parties	14	117	2,117
Miscellaneous receivables		386	387
<b>Total trade and other receivables</b>		<b>503</b>	<b>2,504</b>

## NOTE 3. Inventories

EUR '000	31 December 2012	31 December 2011
Raw and other materials	3,524	3,120
Work in progress	7,367	5,330
Properties purchased for sale and development	13,740	13,263
Finished goods	1,604	2,407
<b>Total inventories</b>	<b>26,235</b>	<b>24,120</b>

In the reporting period, there were no major changes in inventory balances. Work in progress increased mainly through growth in business volumes. Finished goods decreased through sale of apartments in the Tigutorn development. No significant inventory write-downs were performed.

## NOTE 4. Property, plant and equipment and intangible assets

### Property, plant and equipment

In 2012, additions to property, plant and equipment totalled 3,727 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 379 thousand euros (see consolidated statement of cash flows) and net gain on the disposals amounted to 530 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 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

<b>Finance lease liabilities (EUR '000)</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
<b>Finance lease liabilities at end of reporting period</b>	<b>3,736</b>	<b>2,934</b>
Of which payable in less than 1 year	1,269	1,670
Of which payable between 1 and 5 years	2,467	1,264
Base currency EUR	3,736	2,934
Interest rates of contracts denominated in EUR <sup>3</sup>	3.0%-8.0%	2.0%-7.0%
Periodicity of payments	Monthly	Monthly
<sup>3</sup> Including leases with floating interest rates		
<b>Finance lease payments made (EUR '000)</b>	<b>12M 2012</b>	<b>12M 2011</b>
Principal payments made during the period	1,967	1,921
Interest payments made during the period	118	129
<b>Operating lease payments made (EUR '000)</b>	<b>12M 2012</b>	<b>12M 2011</b>
Payments made for cars	649	709
Payments made for construction equipment	1,804	2,369
Payments made for premises	634	463
Payments made for software	358	345
<b>Total operating lease payments made</b>	<b>3,445</b>	<b>3,886</b>

## NOTE 6. Interest-bearing loans and borrowings

<b>EUR '000</b>	<b>Note</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
Short-term bank loans		7,463	9,288
Short-term portion of long-term bank loans		11,594	6,996
Short-term portion of finance lease liabilities	5	1,269	1,670
Factoring liabilities		6,859	1,176
<b>Total short-term loans and borrowings</b>		<b>27,185</b>	<b>19,130</b>
Long-term portion of bank loans		220	7,265
Long-term portion of finance lease-liabilities		2,467	1,264
Other long-term loans		984	984
<b>Total long-term loans and borrowings</b>		<b>3,671</b>	<b>9,513</b>
<b>Total interest-bearing loans and borrowings</b>		<b>30,856</b>	<b>28,643</b>

## 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.

<b>EUR '000</b>	<b>12M 2012</b>	<b>12M 2011</b>
Profit/loss for the period attributable to owners of the parent	1,487	-5,304
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share	0.05	-0.17
Diluted earnings per share	0.05	-0.17



## 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.

## 12 months

EUR '000	Buildings	Buildings	Infrastructure	Other	Total
12 months 2012	EU	UKR/BLR	EU	segments	
Total revenue	66,894	356	89,190	4,003	160,443
Inter-segment revenue	-64	-264	-6	-2,192	-2,526
<b>Revenue from external customers</b>	<b>66,830</b>	<b>92</b>	<b>89,184</b>	<b>1,811</b>	<b>157,917</b>
<b>Segment profit/loss</b>	<b>4,972</b>	<b>-304</b>	<b>5,758</b>	<b>224</b>	<b>10,650</b>
12 months 2011	Buildings	Buildings	Infrastructure	Other	Total
	EU	UKR/BLR	EU	segments	
Total revenue	68,754	1,749	72,756	6,488	149,747
Inter-segment revenue	0	-146	-21	-4,122	-4,289
<b>Revenue from external customers</b>	<b>68,754</b>	<b>1,603</b>	<b>72,735</b>	<b>2,366</b>	<b>145,458</b>
<b>Segment profit/loss</b>	<b>-318</b>	<b>-161</b>	<b>2,361</b>	<b>161</b>	<b>2,043</b>

## Fourth quarter

EUR '000	Buildings	Buildings	Infrastructure	Other	Total
Q4 2012	EU	UKR/BLR	EU	segments	
Total revenue	17,246	24	24,561	910	42,741
Inter-segment revenue	0	15	16	-564	-533
<b>Revenue from external customers</b>	<b>17,246</b>	<b>39</b>	<b>24,577</b>	<b>346</b>	<b>42,208</b>
<b>Segment profit/loss</b>	<b>1,202</b>	<b>-194</b>	<b>1,424</b>	<b>-21</b>	<b>2,412</b>





Q4 2011	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	22,580	-937	16,831	1,404	39,879
Inter-segment revenue	104	-146	5,379	-689	4,647
<b>Revenue from external customers</b>	<b>22,684</b>	<b>-1,083</b>	<b>22,210</b>	<b>715</b>	<b>44,526</b>
<b>Segment profit</b>	<b>388</b>	<b>21</b>	<b>499</b>	<b>114</b>	<b>1,022</b>

## Reconciliation of segment revenues

EUR '000	12M 2012	Q4 2012	12M 2011	Q4 2011
Total revenues for reportable segments	156,440	41,831	143,259	38,474
Revenue for other segments	4,003	910	6,488	1,404
Elimination of inter-segment revenues	-2,526	-533	-4,289	4,647
Unallocated revenue	1,691	346	2,344	17
<b>Total consolidated revenue</b>	<b>159,608</b>	<b>42,554</b>	<b>147,802</b>	<b>44,542</b>

## Reconciliation of segment profit

EUR '000	12M 2012	Q4 2012	12M 2011	Q4 2011
Total profit for reportable segments	10,426	2,432	1,882	908
Total profit/loss for other segments	224	-21	161	115
Elimination of inter-segment profits/losses	-17	-3	-3	13
Other unallocated profits and costs <sup>4</sup>	-2,411	-212	-1,846	-124
<b>Total gross profit</b>	<b>8,222</b>	<b>2,196</b>	<b>194</b>	<b>912</b>
Unallocated items:				
Marketing and distribution expenses	-389	-136	-317	-79
Administrative expenses	-5,385	-1,444	-4,641	-1,357
Other operating income/expenses	244	-30	134	-461
<b>Consolidated operating profit/loss</b>	<b>2,692</b>	<b>586</b>	<b>-4,630</b>	<b>-986</b>
Finance income	622	163	938	444
Finance costs	-1,248	-576	-1,086	-202
Share of profit/loss of equity-accounted investees	-71	-210	100	-4
<b>Consolidated profit/loss before tax</b>	<b>1,995</b>	<b>-37</b>	<b>-4,678</b>	<b>-748</b>

<sup>4</sup> 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

EUR '000	12M 2012	Q4 2012	12M 2011	Q4 2011
<b>Revenue</b>				
Estonia	156,987	41,217	142,684	44,231
Ukraine	348	24	439	150
Belarus	8	0	1,310	-1,087
Finland	2,649	1,353	3,511	1,256
Inter-segment eliminations	-384	-40	-142	-8
<b>Total revenue</b>	<b>159,608</b>	<b>42,554</b>	<b>147,802</b>	<b>44,542</b>

## NOTE 10. Cost of sales

EUR '000	12M 2012	12M 2011
Cost of materials, goods and services used	135,460	133,212
Personnel expenses	13,778	12,003
Depreciation and amortisation expense	1,919	2,203
Other expenses	229	190
<b>Total cost of sales</b>	<b>151,386</b>	<b>147,608</b>



## NOTE 11. Administrative expenses

EUR '000	12M 2012	12M 2011
Cost of materials, goods and services used	2,020	2,124
Personnel expenses	3,025	2,222
Depreciation and amortisation expense	227	183
Other expenses	113	112
<b>Total administrative expenses</b>	<b>5,385</b>	<b>4,641</b>

## NOTE 12. Other operating income and expenses

Other operating income (EUR '000)	12M 2012	12M 2011
Gain on sale of property, plant and equipment and intangible assets	530	335
Gain on sale of investment property	0	221
Foreign exchange gain	0	139
Other income	280	111
<b>Total other operating income</b>	<b>810</b>	<b>806</b>

Other operating expenses (EUR '000)	12M 2012	12M 2011
Losses on write-off of property, plant and equipment and intangible assets	130	84
Write-down of non-current assets held for sale	0	84
Loss on sale of investment property	0	9
Write-down of goodwill	0	425
Loss/gain on write-down and recovery of receivables (net)	239	-8
Foreign exchange loss	71	0
Membership fees	2	2
Other expenses	124	76
<b>Total other operating expenses</b>	<b>566</b>	<b>672</b>

## NOTE 13. Finance income and costs

Finance income (EUR '000)	12M 2012	12M 2011
Gain on acquisition/disposal of investments in subsidiaries (net)	0	269
Interest income on loans	600	623
Foreign exchange gain	6	37
Other finance income	16	9
<b>Total finance income</b>	<b>622</b>	<b>938</b>

Finance costs (EUR '000)	12M 2012	12M 2011
Interest expense	1,097	993
Foreign exchange losses	30	8
Other finance costs	121	85
<b>Total finance costs</b>	<b>1,248</b>	<b>1,086</b>



## NOTE 14. Transactions with related parties

The company 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 Volume of transactions performed	12M 2012		12M 2011	
	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	370	3	416	5
Companies of AS Nordic Contractors group	20	5,873	2	1,947
Equity-accounted investees	180	23	296	9
Companies connected with a member of the council	59	0	0	0
<b>Total</b>	<b>629</b>	<b>5,899</b>	<b>714</b>	<b>1,961</b>

EUR '000 Volume of transactions performed	12M 2012		12M 2011	
	Purchases	Sales	Purchases	Sales
Construction services	268	5,880	354	1,906
Lease and other services	361	19	360	55
<b>Total</b>	<b>629</b>	<b>5,899</b>	<b>714</b>	<b>1,961</b>

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 491 thousand euros (2011: 454 thousand euros), interest income on loans to joint ventures of 111 thousand euros (2011: 86 thousand euros) and interest income on loans to other related parties of nil euros (2011: 61 thousand euros).

### Receivables from and liabilities to related parties at period-end

EUR '000	31 December 2012		31 December 2011	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	1	8	1	42
Companies of AS Nordic Contractors group	585	0	1	0
Associates - receivables	430	4	980	0
Associates – loans and interest	9,754	0	8,528	0
Joint ventures – loans and interest	1,888	0	1,739	0
<b>Total</b>	<b>12,658</b>	<b>12</b>	<b>11,249</b>	<b>42</b>

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

The remuneration of the members of the board of Nordecon AS for 2012, including social security charges, totalled 597 thousand euros (2011: 316 thousand euros). The remuneration of the members of the council of Nordecon AS, including social security charges, amounted to 256 thousand euros (2011: 92 thousand euros). The remuneration expenses of both the council and the board include the provisions made for their performance bonuses, which are calculated based on the Group's consolidated financial results (in 2011 no bonus provisions were made).






## 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 fourth quarter and twelve 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		13 February 2013
Avo Ambur	Member of the Board		13 February 2013
Erkki Suurorg	Member of the Board		13 February 2013