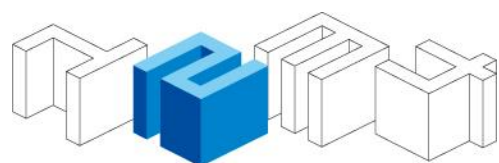




**Financial report for the second  
quarter and six months of 2013**  
(unaudited)

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## Financial report for the second quarter and six months of 2013 (unaudited)

<b>Business name</b>	Nordecon AS
<b>Registry number</b>	10099962
<b>Address</b>	Pärnu mnt 158/1, 11317 Tallinn
<b>Domicile</b>	Republic of Estonia
<b>Telephone</b>	+ 372 615 4400
<b>Fax</b>	+ 372 615 4401
<b>E-mail</b>	<a href="mailto:nordecon@nordecon.com">nordecon@nordecon.com</a>
<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 2013 – 31 December 2013
<b>Reporting period</b>	1 January 2013 – 30 June 2013
<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



## Contents

<b>About the Group</b>	<b>3</b>
<b>Directors' report</b>	<b>4</b>
<b>Condensed consolidated interim financial statements</b>	<b>19</b>
Condensed consolidated interim statement of financial position	19
Condensed consolidated interim statement of comprehensive income	20
Condensed consolidated interim statement of cash flows	21
Condensed consolidated interim statement of changes in equity	22
NOTE 1. Significant accounting policies	23
NOTE 2. Trade and other receivables	23
NOTE 3. Inventories	23
NOTE 4. Property, plant and equipment and intangible assets	24
NOTE 5. Finance and operating leases	24
NOTE 6. Loans and borrowings	24
NOTE 7. Earnings per share	25
NOTE 8. Segment reporting – operating segments	25
NOTE 9. Segment reporting – geographical information	27
NOTE 10. Cost of sales	27
NOTE 11. Administrative expenses	27
NOTE 12. Other operating income and expenses	27
NOTE 13. Finance income and costs	27
NOTE 14. Transactions with related parties	28
NOTE 15. Contingent assets and liabilities	29
Statements and signatures	30



## 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 building 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 AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry and has been awarded 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.

## VISION

To be the preferred partner in the construction industry for customers, subcontractors and employees.

## MISSION

To offer our customers building and infrastructure construction solutions that meet their needs and fit their budget and thus help them maintain and increase the value of their assets.

## SHARED VALUES

### Professionalism

We are professional builders – we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead; we successfully combine our extensive industry experience with the opportunities provided by innovation.

### Reliability

We are reliable partners – we keep our promises and do not take risks at the expense of our customers. Together, we can overcome any construction challenge and achieve the best possible results.

### Openness

We act openly and transparently. We observe best practice in the construction industry and uphold and promote it in society as a whole.

### Employees

We inspire our people to grow through needs-based training and career opportunities consistent with their experience. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.



## Directors' report

### 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 was involved in building and infrastructure construction, 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.

#### Changes in the Group's foreign operations

In line with the current strategy, our target foreign markets are Latvia, Lithuania and Ukraine. In Finland, we operate in a narrow market segment and do not intend to expand to other segments.

##### 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 incorporated in Latvia.

##### Lithuania

During the period, there were no changes in our Lithuanian operations. We have currently no construction contracts in progress in Lithuania and the operations of our Lithuanian subsidiary Nordecon Statyba UAB have been suspended.

##### Ukraine

There were no changes in our Ukrainian operations during the reporting period. The economic and political situation in the country did not change and, thus, we were not able to grow our Ukrainian business. However, the number of bids requested for new construction projects increased somewhat.

Real estate development projects that require extensive investment (we have currently an interest in two conserved development projects) remain suspended to minimise the risks until the situation in Ukraine becomes clearer. To secure the investment, in 2012 the Group and its co-owners privatised the land of the V.I. Center TOV development project and in the first half of 2013 the privatised plots were encumbered with mortgages created for the benefit of the owners.

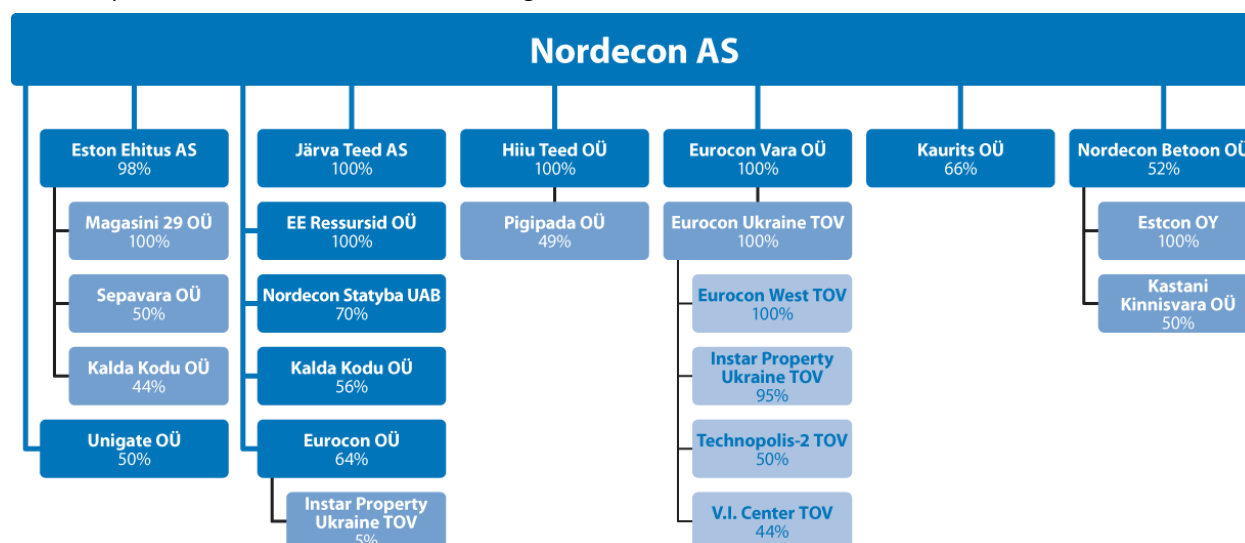
##### Finland

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



## Group structure

The Group's structure at 30 June 2013, including interests in subsidiaries and associates\*



\* 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. Nor does the chart include investments in which the Group's interest is less than 20%.

### Significant changes in the Group's structure

#### 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, a binder required in road surfacing and asphalt laying works. The purpose of the intra-group restructuring 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.

#### MP Ukraine TOV

In June, liquidation of the Group's Ukrainian entity, MP Ukraine TOV, was finalised. The entity, which conducted no business operations during its life cycle, used to belong to Nordecon Betoon OÜ (a 95% stake) and Eurocon Ukraine TOV (a 5% stake).



## Financial review

### Financial performance

Nordecon group's gross profit for the first half of 2013 amounted to 3,273 thousand euros (HY1 2012: 2,188 thousand euros) and gross margin was 4.3% (HY1 2012: 3.5%).

In previous interim reports we have described the work done to restore the Group's profitability. The measures applied, including extensive internal restructuring and decisive cost cuts, have been effective but their effect on each subsequent year's profit is inherently limited. Moreover, in interpreting the results, it should be noted that the profits of long-term construction contracts are earned gradually, based on the stage of completion of contract activity.

The external environment has supported improvements in the Group's profitability. The previous year's market growth and relatively stable materials and subcontracting prices have created a solid basis for a rise in the projects' average profit margin. Another factor that has facilitated growth in profitability has been a rise in the proportion of contracts signed with the private sector. However, competition for public procurement contracts to be signed this year will be fierce, as companies expect a decrease in the work procured by the public sector due to the depletion of resources in the current EU financial framework that is coming to an end in 2013. This will intensify competition and pricing pressure in all segments of the construction market. The Group is aware 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 its revenue figures.

The Group's administrative expenses for the first half of 2013 totalled 2,327 thousand euros, reflecting a certain decrease compared with a year ago (HY1 2012: 2,504 thousand euros). The ratio of administrative expenses to revenue (12 months rolling) was 3.0% (HY1 2012: 3.2%). Our cost-control measures continue to yield strong results, allowing us to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

Operating profit for the first half of 2013 was 954 thousand euros (HY1 2012: an operating loss of 197 thousand euros) and EBITDA was positive at 1,965 thousand euros (HY1 2012: 925 thousand euros).

The Group ended the first half-year with a net profit of 813 thousand euros (HY1 2012: a net loss of 389 thousand euros). The profit attributable to owners of the parent, Nordecon AS, was 729 thousand euros (HY1 2012: a loss of 491 thousand euros).

### Cash flows

Operating activities of the first half of 2013 resulted in a net cash outflow of 7,955 thousand euros (HY1 2012: a net outflow of 7,081 thousand euros). Negative operating cash flow in the first half-year is attributable to the cyclical nature of construction activity. Higher fixed costs and preparations made for launching more active construction operations in the second quarter cause outflows to exceed inflows. Our operating cash flows are also influenced by differences in settlement terms: the payment terms agreed with customers are long and in the case of public procurement generally extend from 45 to 56 days while subcontracts ordinarily have to be paid within 21 to 45 days. We use factoring to counteract the impacts of cyclicity and overdraft facilities to raise working capital.

Cash flows from investing activities resulted in a net outflow of 268 thousand euros (HY1 2012: a net outflow of 830 thousand euros). We continued to invest in property, plant and equipment although not as extensively as a year ago. The volume of loans to associates was similar to the previous year but we received more loan repayments. In addition, we made a contribution of 350 thousand euros to restore an associate's negative equity.

Financing activities resulted in a net cash inflow of 2,417 thousand euros (HY1 2012: 3,335 thousand euros). The net amount of loan receipts and repayments was positive at 3,736 thousand euros compared with 5,012 thousand euros for the first half of 2012. The Group borrowed more working capital because business volumes have increased compared with the previous year. However, loan repayments, which were mostly made to meet commitments under refinancing agreements, were larger as well.

At 30 June 2013, the Group's cash and cash equivalents totalled 4,423 thousand euros (30 June 2012: 5,332 thousand euros). Management's comments on liquidity risks are presented in the chapter *Description of the main risks*.



## Key financial figures and ratios

Figure/ratio	6M 2013	6M 2012	6M 2011	2012
Revenue (EUR'000)	75,497	62,920	54,429	159,422
Revenue growth	20%	16%	46%	7.9%
Net profit/loss (EUR'000)	812	-390	-3,716	1,926
Profit/loss attributable to owners of the parent (EUR'000)	728	-491	-3,652	1,477
Weighted average number of shares	30,756,727	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.02	-0.02	-0.12	0.05
Administrative expenses to revenue	3.1%	4.0%	3.9%	3.4%
Administrative expenses to revenue (rolling)	3.0%	3.2%	4.1%	3.4%
EBITDA (EUR'000)	1,965	925	-2,278	4,833
EBITDA margin	2.6%	1.5%	-4.2%	3.0%
Gross margin	4.3%	3.5%	-2.6%	5.2%
Operating margin	1.3%	-0.3%	-6.4%	1.7%
Operating margin excluding gains on asset sales	1.1%	-0.7%	-6.8%	1.4%
Net margin	1.1%	-0.6%	-6.8%	1.2%
Return on invested capital	2.2%	0.3%	-5.0%	5.2%
Return on equity	2.7%	-1.4%	-11.7%	6.6%
Equity ratio	27.3%	25.0%	26.8%	27.1%
Gearing	45.4%	48.5%	40.8%	33.7%
Current ratio	1.08	1.05	1.19	1.08
	<b>30 June 2013</b>	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>31 Dec 2012</b>
Order book (EUR'000)	103,230	166,367	140,234	127,259

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

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

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

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

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

EBITDA margin = (EBITDA/revenue)\*100

Gross margin = (gross profit/revenue)\*100

Operating margin = (operating profit/revenue)\*100

Operating margin excluding gains on asset sales = ((operating profit - gains on sale of property, plant and equipment - gains on sale of investment properties and real estate held for sale)/revenue) \*100

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

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

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

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

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

Current ratio = total current assets/ total current liabilities





## Performance by geographical market

In the first half of 2013, around 2% of the Group's revenue was generated outside Estonia compared with 1% in the first half of 2012.

	6M 2013	6M 2012	6M 2011	2012
Estonia	98%	99%	96%	98%
Finland	2%	1%	1%	2%
Belarus	0%	0%	3%	0%

Finnish revenues comprise revenue from concrete works. We expect the contribution of foreign markets to remain at a similar level throughout the year.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive concentration 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 that it knows best and which entails fewer known market risks. The Group's vision of its future operations in foreign markets 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, specialist and environmental engineering, concrete works and real estate development.

The Group's revenue for the first six months of 2013 was 75,497 thousand euros, a 20% improvement on the 62,920 thousand euros generated in the first six months of 2012.

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 a strategic ceiling for revenue from the construction of apartment buildings, which has to remain below 20% of total sales.

### Segment revenues

In the first half of 2013, our two main operating segments, Buildings and Infrastructure, generated revenue of 30,796 thousand euros and 42,638 thousand euros respectively. The corresponding figures for the previous year were 28,360 thousand euros and 32,769 thousand euros (see note 8). The rise in the contribution and absolute figures of the Infrastructure segment (also compared with the previous year) is mostly attributable to the performance of major road construction projects.

Operating segments *	6M 2013	6M 2012	6M 2011	2012
Buildings	41%	46%	46%	42%
Infrastructure	59%	54%	54%	58%

\* In *Directors' report* the Ukrainian buildings segment and the EU buildings segment, which are disclosed separately in the financial statements as required by IFRS 8 *Operating Segments*, are presented as a single segment.

In *Directors' report*, projects have been allocated to operating segments based on their nature (i.e. building or infrastructure construction). In the segment reporting presented in the financial statements, allocation is 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 Betocon 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.



### Sub-segment revenues

Last year's rise in private sector investments triggered rapid revenue growth in the commercial buildings sub-segment. The Group's projects in progress include several commercial buildings in Tallinn and Tartu. New contracts secured during the year include an extension to the ASTRI shopping centre in Narva (a contract of over 15 million euros) and the Stroomi shopping centre (a contract of over 9 million euros, secured in the month following the reporting period). We expect the investment activity of private sector customers to remain robust and the contribution of the sub-segment to remain substantial through 2013.

The revenues of the public buildings sub-segment have decreased because we do not have any major projects comparable to those performed a year ago. The competitive situation in this market segment is particularly challenging: it is hard to win a procurement tender without taking excessive risks but our current policy is to avoid such risks. No major procurement tenders are expected to be announced in this sub-segment in 2013 and, thus, volumes will probably not expand. Our largest ongoing projects are the construction of the Translational Medicine Centre of the University of Tartu and Phase V of St Paul's Church in Tartu.

In the industrial and warehouse facilities sub-segment most of the revenue resulted from the construction of buildings procured by the agricultural sector. However, the volume of such work was smaller than in the previous years because the current EU budget period is coming to an end and thus allocations from the EU structural funds that co-finance the projects are decreasing. Shrinkage in the sub-segment's revenues has been counterbalanced by private sector investments in new industrial and production buildings.

The revenues of the apartment buildings sub-segment resulted from general contracting, not development. In the second half-year the contribution of the apartment buildings sub-segment should increase because in May we won a contract of around 10 million euros for the construction of an apartment building at Pirita tee 26 in Tallinn (our recent years' largest contract for the construction of an apartment building).

Revenue distribution within Buildings segment	6M 2013	6M 2012	6M 2011	2012
Commercial buildings	45%	19%	6%	26%
Industrial and warehouse facilities	34%	28%	38%	35%
Public buildings	19%	49%	54%	36%
Apartment buildings	2%	4%	2%	3%

As expected, the main revenue source for the Infrastructure segment was road construction. We are currently working on several large projects that involve not only seasonally restricted operations such as asphalt-laying but also various kinds of earthwork and construction of structures, which could also be carried out in the winter weather of the beginning of the year. Since most of the work relating to projects in progress will be performed in 2013, the contribution of the sub-segment should remain high.

In specialist engineering, we continued our work at Sillamäe port and Kärkla guest harbour. The contribution of the sub-segment has decreased compared with the previous year because most of the construction work at Sillamäe port was completed in 2012. We do not expect any major public or private sector investments in specialist engineering projects to be announced in the second half of the year.

In 2012 Nordecon secured a number of environmental engineering contracts. Most of the work relating to those contracts will be performed in 2013. In addition, in the reporting period we signed a contract of 6.4 million euros for the reconstruction of the wastewater treatment plant of the town of Paide. Thus, the contribution of environmental engineering will probably remain larger than in the previous year, with some of the rise resulting from shrinkage in the construction of water and wastewater networks (other engineering). The decrease in the latter is consistent with general market developments. The current year is the last one in the EU financial framework that is coming to an end and most of the work to be conducted with the support of allocated funds has already been tendered.

Revenue distribution within Infrastructure segment	6M 2013	6M 2012	6M 2011	2012
Road construction and maintenance	54%	40%	46%	51%
Specialist engineering (including hydraulic engineering)	8%	16%	1%	15%
Other engineering	27%	38%	37%	27%
Environmental engineering	11%	6%	16%	7%



## Order book

At 30 June 2013, our order book stood at 103,230 thousand euros, a 38% decrease compared with a year ago.

The largest decrease in our order book (backlog of contracts signed but not yet performed) occurred in road construction (approx. 75%) where in recent years we have been working on three large public procurement projects: (the Aruvalla-Kose section on the Tallinn-Tartu motorway, Tartu western bypass and Tartu eastern ring road). New national investments in large-scale road construction projects have been practically non-existent. In 2013, the state will probably select contractors for two large road construction projects but the total volume of the contracts will be less than 15 million euros. The order book for the construction of outdoor utility (water and wastewater) networks has shrunk too, because such work is typically procured with the support of the EU structural funds but in the last year of the EU budget period relevant allocations are expectedly smaller.

On the other hand, the order books of the commercial buildings and environmental engineering sub-segments have increased. In the commercial buildings sub-segment this has occurred thanks to growth in private sector investments and in the environmental engineering sub-segment thanks to the Group's successful bidding and, partly, because in the past year EU-supported investments in environmental facilities have increased.

The order book no longer includes the remaining balance of the Tivoli housing development project in Tallinn city centre (30 June 2012: 13,048 thousand euros). Nordecon published a stock exchange announcement on the termination of the contract on 13 June 2013.

As at the end of	6M 2013	6M 2012	6M 2011	2012
Order book (EUR'000)	103,230	166,367	140,234	127,259

Because of the general situation in the construction market, infrastructure contracts account for a larger proportion of the order book than building construction contracts. However, compared with a year ago, the lead of the Infrastructure segment has decreased significantly. At the reporting date, infrastructure contracts accounted for 52% of the order book (30 June 2012: 69%).

Between the reporting date (30 June 2013) and the date of release of this report, Group companies have secured additional construction contracts of approximately 15,290 thousand euros.

## People

### Staff and personnel expenses

In the first half of 2013, the Group (the parent and the subsidiaries) employed, on average, 774 people including 362 engineers and technical personnel (ETP). The number of staff did not increase substantially compared with a year ago.

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

	6M 2013	6M 2012	6M 2011	2012
ETP	362	371	352	367
Workers	412	400	379	397
<b>Total average</b>	<b>774</b>	<b>771</b>	<b>731</b>	<b>764</b>

The Group's personnel expenses for the first half of 2013 including all taxes totalled 8,582 thousand euros, 20% up on the comparative period when personnel expenses were 7,143 thousand euros. Personnel expenses have increased through growth in operating volumes and performance bonuses paid in a situation of improved profitability. Selective increases in basic salaries have had less impact.

In the first half of 2013, the service fees of the members of the council of Nordecon AS amounted to 71 thousand euros and associated social security charges totalled 23 thousand euros (HY1 2012: 71 thousand euros and 23 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 101 thousand euros and associated social security charges totalled 33 thousand euros (HY1 2012: 147 thousand euros and 49 thousand euros respectively including the remuneration of the member of the board that was removed on 30 April 2012).



### Labour productivity and labour cost efficiency

In recent years, the number of the Group's employees has been relatively stable and thus the rise in nominal labour productivity stems mostly from revenue growth. Nominal labour cost efficiency for the period was weakened by the larger amount of performance bonuses paid because of profitable operation in the previous year. In previous years, the proportion of performance bonuses in the Group's total personnel expenses was smaller. Basic salaries have not been substantially increased.

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

	6M 2013	6M 2012	6M 2011	2012
Nominal labour productivity (rolling), (EUR'000)	224.6	208.6	155.9	208.7
Change against the comparative period	7.7%	33.8%	25.0%	3.2%
Nominal labour cost efficiency (rolling), (EUR'000)	9.4	10.6	8.2	9.5
Change against the comparative period	-11.3%	29.1%	30.9%	-8.6%

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

Nominal labour cost efficiency (rolling) = (past four quarters' revenue) / (past four quarters' personnel expenses)



## 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*
<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

\* In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares without par value. The share capital of Nordecon AS now consists of 30,756,728 ordinary registered shares with no par value.

Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meeting of Nordecon AS.

### Movements in the price and turnover of the Nordecon AS share in the first half of 2013

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 the first half of 2013



Index/equity	1 January 2013*	30 June 2013	+/-%
OMX Tallinn	734.20	812.73	10.70
NCN1T	1.16	1.10	-5.17

\* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2012

## Summarised trading results

### Share trading history (EUR)

Price	6M 2013	6M 2012	6M 2011
Open	1.17	0.92	1.38
High	1.28	1.18	1.5
Low	1.00	0.88	1.22
Last closing price	1.10	1.17	1.29
Traded volume (number of securities traded)	1,849,996	2,060,558	2,264,140
Turnover, millions	2.17	2.15	3.10
Listed volume (30 June), thousands	30,757	30,757	30,757
Market capitalisation (30 June), millions	33.83	35.99	39.68

## Shareholder structure

### Largest shareholders of Nordecon AS at 30 June 2013

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Lukusjaht AS	2,836,655	9.22
ING Luxembourg S.A.	2,007,949	6.53
SEB Pank AS clients	684,381	2.23
Skandinaviska Enskilda Banken AB, Swedish Clients	661,308	2.15
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 Finnish Clients	257,410	0.84



### Shareholder structure of Nordecon AS by ownership interest at 30 June 2013

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	69.42
Shareholders with interest between 1% and 5%	5	9.89
Shareholders with interest below 1%	1,912	20.69
<b>Total</b>	<b>1,920</b>	<b>100</b>

### Shares controlled by members of the council of Nordecon AS at 30 June 2013

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	53.90
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ)*	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Möis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
<b>Total</b>		<b>17,727,704</b>	<b>57.64</b>

\* Companies controlled by the individual

On 19 June 2013 OÜ Luman ja Pojad, a company controlled by the chairman of the council, acquired an additional 5,000 shares in Nordecon AS.

### Shares controlled by members of the board of Nordecon AS at 30 June 2013

Board member		Number of shares	Ownership interest (%)
Jaano Vink (OÜ Brandhouse)*	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>

\* 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.



## 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 tend to rise involves as high risk because the contract may quickly start generating a loss.

In the next periods, the Estonian construction market will depend mainly 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 certain until the end of the current budget period (2007-2013). However, the allocations remaining for the last year of the budget period are smaller than in the previous years, which means, that in 2013 the number of new, starting projects will decrease significantly. The expenditures of the EU financial framework 2014-2020 that will be designated for investments involving construction work are still unclear. Although the amounts allocated to Estonia under the cohesion policy programmes will increase, national priorities may have changed. Nevertheless, 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, earthwork, 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.

### 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 performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount payable until the completion of the contract. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 30 June 2013, the Group's warranties provisions (including current and non-current ones) totalled 1,150 thousand euros. At 30 June 2012, the corresponding figure was 1,103 thousand euros.

In addition to managing the risks, which are directly related to construction operations, in recent years we have sought to mitigate 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. The errors made in the planning stage are usually 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 governments as well as the EU structural funds continued to be high. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days coupled with no activity on the part of the debtor that would confirm the intent to settle.

In the first half of 2013, reversals of prior period credit losses gave rise to a gain of 6 thousand euros (HY1 2012: a gain of 4 thousand euros).





The Group's statement of financial position includes 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. The case is expected to be ruled upon in the second half of 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.

At the reporting date, the Group's current assets exceeded its current liabilities 1.08-fold (30 June 2012: 1.05-fold). Interest-bearing liabilities account for 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. To date, banks have refinanced the Group's liabilities for periods not exceeding 12 months, which is why a substantial portion of loans are classified as current liabilities although it is probable that some borrowings (particularly overdraft facilities) will be refinanced again when 12 months have passed. In the first half of 2013, the Group refinanced loans of 13,415 thousand euros which at 31 December 2012 were recognised as current liabilities (at 30 June 2013 relevant loan balances totalled 16,013 thousand euros) and deferred their maturity dates to 2014.

At the reporting date, the Group's cash and cash equivalents totalled 4,423 thousand euros (30 June 2012: 5,332 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 most floating rate contracts is Euribor. At 30 June 2013, the Group's interest-bearing loans and borrowings totalled 33,826 thousand euros, a decrease of 2,719 thousand euros year over year. Interest expense for the first half of 2013 amounted to 532 thousand euros. Compared with the first half of 2012, interest expense increased by 28 thousand euros. The Group's interest rate risk results mainly from a rise in the base rate for floating interest rates (Euribor/EONIA). The risk is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates.

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). In the first half of 2013, the exchange rate of the Ukrainian hryvna against the euro was stable. The Group's net foreign exchange gain for the period was 64 thousand euros (HY1 2012: a net foreign exchange gain of 83 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.



## Outlooks of the Group's geographical markets

### Estonia

#### Processes and developments characterising the Estonian construction market in 2013

- Construction volumes will be larger in the infrastructure segment but the segment's lead over building construction will diminish. Private sector investments, which will grow compared with 2012, will mostly be made in the buildings segment. Moreover, the public sector will contribute to building construction through two major contracts – the construction of a new main building of the Estonian National Museum and the Maarjamõisa medical campus of 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 current EU budget period, the volume of new procurements will decrease. The volumes and timing of projects to be executed using the support of the next EU financial framework (2014-2020) are still unclear. The investment volumes of two large public sector customers, Riigi Kinnisvara AS (a state-owned real estate company) and the National Road Administration, are going to decline. It is more likely than not that this year growth of the Estonian construction market is going to decelerate and next year the market may see certain shrinkage.
- 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 still too large, but the process will be slower than expected. 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 or shrink in size rather than merge with another or exit the market. However, it will also become increasingly common that two to four smaller players that are seeking ways to remain in business will form a consortium to bid for major procurement contracts, meet tendering terms 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 caused a rapid decline in construction prices, which triggered a slide in the prices of many construction inputs. However, currently there are no massive decreases in the prices of construction inputs and companies that are banking on this in the bidding phase may run into difficulty. Profit margins are already under strong competitive pressure.
- 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. Although the overall situation is improving steadily, the offering of new residential real estate cannot be increased dramatically because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Similarly to the previous year, successful projects will include those that create or fill a niche.
- The contracts signed with public sector customers will continue to impose tough conditions on construction companies: extensive obligations, strict sanctions, various 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. Still, compared to two or three years ago, the situation has improved and in some respects procurement terms have become more reasonable for construction companies.
- The prices of construction inputs will remain relatively stable. Local subcontracting prices may decrease due to weakening demand but, taking into account the subcontractors' financial and human resources, the decline cannot be substantial or long-lasting. In some areas, price fluctuations are unpredictable and, thus, notably greater and hard or even impossible to influence (oil and metal products, certain materials and equipment).
- There is a shortage of high-quality skilled labour (including project and site managers). The decline in local construction volumes may increase labour supply but not substantially. Labour migration to the Nordic countries will remain steady and although those markets (particularly Finland) may also see some shrinkage, the number of job seekers that will return will not increase considerably. Accordingly, the basic wage of construction-sector employees will not decrease. Instead, the rise in the cost of living sustains pressure for a wage increase.



## Latvia and Lithuania

In our opinion, the Latvian construction market, which was hit by a severe downturn a few years ago, has not regained 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 to 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.

The operations of our Lithuanian subsidiary, Nordecon Statyba UAB, have been suspended. 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 will recover in 2013 to a certain extent although the economic and political risks do not allow us to expect any rapid changes. We continue to monitor the situation in the Ukrainian construction market closely and will restructure our operations as appropriate. We also continue to seek opportunities for exiting our two 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 projects where the customer wishes to purchase all concrete works from one reliable partner. Nevertheless, we will maintain a rational approach and will avoid taking excessive risks. We are not planning to penetrate any other segments of the Finnish construction market (general contracting, project management, etc).

## Management's confirmation and signatures

**The board confirms that the Directors' report presents fairly all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements, contains a description of the main risks and uncertainties, and provides an overview of all significant transactions with related parties.**

Jaano Vink

Chairman of the Board

8 August 2013

Avo Ambur

Member of the Board

8 August 2013

Erkki Suurorg

Member of the Board

8 August 2013



## Condensed consolidated interim financial statements

### Condensed consolidated interim statement of financial position

EUR '000	Note	30 June 2013	31 December 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,423	10,231
Trade and other receivables	2	52,580	42,896
Prepayments		2,187	1,840
Inventories	3	23,999	26,243
<b>Total current assets</b>		<b>83,189</b>	<b>81,210</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees		547	202
Other investments		26	26
Trade and other receivables	2	382	1,554
Investment property		4,930	4,930
Property, plant and equipment	4	9,573	8,851
Intangible assets	4	14,808	14,857
<b>Total non-current assets</b>		<b>30,266</b>	<b>30,420</b>
<b>TOTAL ASSETS</b>		<b>113,455</b>	<b>111,630</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	5, 6	29,672	27,185
Trade payables		37,616	31,968
Other payables		4,971	5,014
Deferred income		4,333	11,404
Provisions		334	521
<b>Total current liabilities</b>		<b>76,926</b>	<b>76,092</b>
<b>Non-current liabilities</b>			
Loans and borrowings	5, 6	4,154	3,671
Trade payables		259	259
Other payables		96	96
Provisions		1,096	1,210
<b>Total non-current liabilities</b>		<b>5,605</b>	<b>5,236</b>
<b>TOTAL LIABILITIES</b>		<b>82,531</b>	<b>81,328</b>
<b>EQUITY</b>			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		-437	-404
Retained earnings		6,686	6,039
<b>Total equity attributable to owners of the parent</b>		<b>28,460</b>	<b>27,846</b>
<b>Non-controlling interests</b>		<b>2,464</b>	<b>2,456</b>
<b>TOTAL EQUITY</b>		<b>30,924</b>	<b>30,302</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>113,455</b>	<b>111,630</b>



## Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q2 2013	Q2 2012	6M 2013	6M 2012	2012
Revenue	8, 9	48,416	40,445	75,497	62,920	159,422
Cost of sales	10	-45,736	-38,293	-72,224	-60,732	-151,205
<b>Gross profit</b>		<b>2,680</b>	<b>2,152</b>	<b>3,273</b>	<b>2,188</b>	<b>8,217</b>
Marketing and distribution expenses		-77	-114	-139	-190	-389
Administrative expenses	11	-1,091	-1,274	-2,327	-2,504	-5,385
Other operating income	12	6	253	206	366	810
Other operating expenses	12	-22	31	-59	-57	-566
<b>Operating profit/loss</b>		<b>1,496</b>	<b>1,048</b>	<b>954</b>	<b>-197</b>	<b>2,687</b>
Finance income	13	182	196	383	341	622
Finance costs	13	-257	-255	-558	-539	-1,248
<b>Net finance costs</b>		<b>-75</b>	<b>-59</b>	<b>-175</b>	<b>-198</b>	<b>-626</b>
Share of profit/loss of equity-accounted investees		86	73	77	49	-79
<b>Profit/loss before income tax</b>		<b>1,507</b>	<b>1,062</b>	<b>856</b>	<b>-346</b>	<b>1,982</b>
Income tax expense		-43	-44	-44	-44	-56
<b>Profit/loss for the period</b>		<b>1,464</b>	<b>1,018</b>	<b>812</b>	<b>-390</b>	<b>1,926</b>
<b>Other comprehensive income/expense:</b>						
Exchange differences on translating foreign operations		20	-114	-33	-53	59
<b>Total other comprehensive income/expense for the period</b>		<b>20</b>	<b>-114</b>	<b>-33</b>	<b>-53</b>	<b>59</b>
<b>TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE PERIOD</b>		<b>1,484</b>	<b>904</b>	<b>779</b>	<b>-443</b>	<b>1,985</b>
<b>Profit/loss attributable to:</b>						
- Owners of the parent		1,401	873	728	-491	1,477
- Non-controlling interests		63	145	84	101	449
<b>Profit/loss for the period</b>		<b>1,464</b>	<b>1,018</b>	<b>812</b>	<b>-390</b>	<b>1,926</b>
<b>Total comprehensive income/expense attributable to:</b>						
- Owners of the parent		1,421	759	695	-544	1,536
- Non-controlling interests		63	145	84	101	449
<b>Total comprehensive income/expense</b>		<b>1,484</b>	<b>904</b>	<b>779</b>	<b>-443</b>	<b>1,985</b>
<b>Earnings per share attributable to owners of the parent:</b>						
Basic earnings per share (EUR)	7	0.05	0.03	0.02	-0.02	0.05
Diluted earnings per share (EUR)	7	0.05	0.03	0.02	-0.02	0.05



## Condensed consolidated interim statement of cash flows

EUR '000	6M 2013	6M 2012
<b>Cash flows from operating activities</b>		
Cash receipts from customers <sup>1</sup>	70,286	65,346
Cash paid to suppliers <sup>2</sup>	-68,190	-62,528
VAT paid	-1,024	-2,079
Cash paid to and for employees	-9,026	-7,809
Income tax paid	-1	-11
<b>Net cash used in operating activities</b>	<b>-7,955</b>	<b>-7,081</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	-228	-836
Proceeds from sale of property, plant and equipment and intangible assets	102	363
Acquisition of associates	-350	0
Loans provided	-349	-376
Repayment of loans provided	196	19
Dividends received	4	0
Interest received	357	0
<b>Net cash used in investing activities</b>	<b>-268</b>	<b>-830</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans received	7,002	6,334
Repayment of loans received	-3,266	-1,322
Payment of finance lease liabilities	-848	-1,090
Interest paid	-471	-587
<b>Net cash from financing activities</b>	<b>2,417</b>	<b>3,335</b>
<b>Net cash flow</b>	<b>-5,806</b>	<b>-4,576</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>10,231</b>	<b>9,908</b>
Effect of exchange rate fluctuations	-2	0
Decrease in cash and cash equivalents	-5,806	-4,576
<b>Cash and cash equivalents at end of period</b>	<b>4,423</b>	<b>5,332</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.



## Condensed consolidated interim statement of changes in equity

EUR '000	Equity attributable to owners of the parent					Non-controlling interests	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<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/loss for the period	0	0	0	-491	-491	101	-390
Other comprehensive expense	0	0	-53	0	-53	0	-53
Dividends paid	0	0	0	0	0	-79	-79
<b>Balance at 30 June 2012</b>	<b>19,657</b>	<b>2,554</b>	<b>-516</b>	<b>4,072</b>	<b>25,767</b>	<b>2,108</b>	<b>27,875</b>
<b>Balance at 31 December 2012</b>	<b>19,657</b>	<b>2,554</b>	<b>-404</b>	<b>6,039</b>	<b>27,846</b>	<b>2,456</b>	<b>30,302</b>
Profit for the period	0	0	0	728	728	84	812
Other comprehensive expense	0	0	-33	0	-33	0	-33
Dividends paid	0	0	0	-81	-81	-76	-157
<b>Balance at 30 June 2013</b>	<b>19,657</b>	<b>2,554</b>	<b>-437</b>	<b>6,686</b>	<b>28,460</b>	<b>2,464</b>	<b>30,924</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 address of the company's registered office is Pärnu mnt 158/1, Tallinn 11317, Estonia. The company's ultimate controlling shareholder is AS Nordic Contractors that holds 53.67% of the shares in Nordecon AS. The Nordecon AS shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The condensed consolidated interim financial statements as at and for the period ended 30 June 2013 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 2012.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2012. The effect of any new and revised standards that have taken effect is described in this note.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the second quarter and first six months of 2013 give a true and fair view of the Group's financial performance 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.

### NOTE 2. Trade and other receivables

EUR '000

Current portion	Note	30 June 2013	31 December 2012
Trade receivables		23,437	20,408
Retentions receivable		5,485	4,479
Receivables from related parties		150	1,016
Loans to related parties	14	11,807	10,474
Miscellaneous receivables		1,007	1,014
<b>Total receivables and loans provided</b>		<b>41,886</b>	<b>37,391</b>
Due from customers for contract work		10,694	5,505
<b>Total trade and other receivables</b>		<b>52,580</b>	<b>42,896</b>

EUR '000

Non-current portion	Note	30 June 2013	31 December 2012
Loans to related parties	14	0	1,168
Miscellaneous receivables		382	386
<b>Total trade and other receivables</b>		<b>382</b>	<b>1,554</b>

### NOTE 3. Inventories

EUR '000

	30 June 2013	31 December 2012
Raw materials and consumables	3,864	3,524
Work in progress	5,250	7,374
Goods for resale and properties purchased for development	13,741	13,741
Finished goods	1,144	1,604
<b>Total inventories</b>	<b>23,999</b>	<b>26,243</b>





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

### Property, plant and equipment

The period's additions to property, plant and equipment totalled 1,686 thousand euros and consisted of equipment and construction machinery acquired for the Group's operating activities.

Proceeds from the sale of property, plant and equipment totalled 102 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 140 thousand euros (see note 12).

### Intangible assets

In the first half of 2013, the Group did not conduct any significant transactions with intangible assets. The carrying amount of intangible assets decreased compared with 31 December 2012 mostly through amortisation.

## NOTE 5. Finance and operating leases

EUR '000	30 June 2013	31 December 2012
<b>Finance lease liabilities at end of reporting period</b>	<b>4,343</b>	<b>3,736</b>
Of which payable in less than 1 year	1,222	1,269
Of which payable between 1 and 5 years	3,121	2,467
Base currency EUR	3,789	3,736
Interest rates of contracts denominated in EUR*	2.0%-6.0%	2.0%-6.0%
Periodicity of payments	Monthly	Monthly

\* Including leases with floating interest rates

Finance lease payments made	6M 2013	6M 2012
Principal payments made during the period	848	1,090
Interest payments made during the period	74	52

Operating lease payments made	6M 2013	6M 2012
Payments made for cars	305	320
Payments made for construction equipment	780	614
Payments made for premises	344	334
Payments made for software	133	200
<b>Total operating lease payments made</b>	<b>1,562</b>	<b>1,468</b>

## NOTE 6. Loans and borrowings

### Short-term loans and borrowings

EUR '000	Note	30 June 2013	31 December 2012
Short-term bank loans		9,569	11,593
Current portion of long-term loans		13,416	7,463
Current portion of finance lease liabilities	5	1,222	1,269
Factoring liabilities		5,465	6,860
<b>Total short-term loans and borrowings</b>		<b>29,672</b>	<b>27,185</b>

### Long-term loans and borrowings

EUR '000	Note	30 June 2013	31 December 2012
Long-term bank loans		192	220
Finance lease liabilities	5	3,121	2,467
Other long-term loans		841	984
<b>Total long-term loans and borrowings</b>		<b>4,154</b>	<b>3,671</b>

In the first half of 2013, the Group refinanced loans of 13,415 thousand euros which at 31 December 2012 were recognised as current liabilities (at 30 June 2013 relevant loan balances totalled 16,013 thousand euros) and deferred their maturity dates to 2014.



## NOTE 7. Earnings per share

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

EUR '000	6M 2013	6M 2012
Profit/loss for the period attributable to owners of the parent	728	-491
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share	0.02	-0.02
Diluted earnings per share	0.02	-0.02

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

## NOTE 8. Segment reporting – 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)
- Infrastructure (European Union)

As from 2013, the Buildings segment does not include the figures for Belarus because the company that operated in Belarus was liquidated in 2012.

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 gross profit of an operating segment (including marketing and 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.

## First half-year

EUR '000 6M 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	30,793	50	43,005	2,060	75,908
Inter-segment revenue	0	-47	-367	-663	-1,077
<b>Revenue from external customers</b>	<b>30,793</b>	<b>3</b>	<b>42,638</b>	<b>1,397</b>	<b>74,831</b>
<b>Gross profit of the segment</b>	<b>2,335</b>	<b>33</b>	<b>1,154</b>	<b>132</b>	<b>3,654</b>



EUR '000 6M 2012	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	28,302	160	32,789	1,602	62,853
Inter-segment revenue	0	-102	-20	-705	-827
<b>Revenue from external customers</b>	<b>28,302</b>	<b>58</b>	<b>32,769</b>	<b>897</b>	<b>62,026</b>
<b>Gross profit/loss of the segment</b>	<b>1,954</b>	<b>-75</b>	<b>722</b>	<b>-14</b>	<b>2,587</b>

## Second quarter

EUR '000 Q2 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	18,090	3	29,518	1,064	48,675
Inter-segment revenue	0	0	321	-875	-554
<b>Revenue from external customers</b>	<b>18,090</b>	<b>3</b>	<b>29,839</b>	<b>189</b>	<b>48,121</b>
<b>Gross profit/loss of the segment</b>	<b>1,299</b>	<b>-6</b>	<b>1,378</b>	<b>191</b>	<b>2,862</b>

EUR '000 Q2 2012	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	16,605	61	22,809	1,105	40,580
Inter-segment revenue	0	-25	-15	-485	-525
<b>Revenue from external customers</b>	<b>16,605</b>	<b>36</b>	<b>22,794</b>	<b>620</b>	<b>40,055</b>
<b>Gross profit/loss of the segment</b>	<b>1,000</b>	<b>-61</b>	<b>1,285</b>	<b>168</b>	<b>2,392</b>

## Reconciliation of segment revenues

EUR '000	6M 2013	Q2 2013	6M 2012	Q2 2012
Total revenues for reportable segments	73,848	47,611	61,251	39,475
Revenue for other segments	2,060	1,064	1,602	1,105
Elimination of inter-segment revenues	-1,077	-554	-827	-525
Unallocated revenue	666	295	894	390
<b>Total consolidated revenue</b>	<b>75,497</b>	<b>48,416</b>	<b>62,920</b>	<b>40,445</b>

## Reconciliation of segment profit

EUR '000	6M 2013	Q2 2013	6M 2012	Q2 2012
Total profit for reportable segments	3,522	2,671	2,601	2,224
Total profit/loss for other segments	132	191	-14	168
Elimination of inter-segment profits and losses	-8	-4	-37	-32
Unallocated profits and losses	-373	-178	-362	-208
<b>Consolidated gross profit</b>	<b>3,273</b>	<b>2,680</b>	<b>2,188</b>	<b>2,152</b>
Unallocated expenses:				
Marketing and distribution expenses	-139	-77	-190	-114
Administrative expenses	-2,327	-1,091	-2,504	-1,274
Other operating income and expenses	147	-16	309	284
<b>Consolidated operating profit/loss</b>	<b>954</b>	<b>1,496</b>	<b>-197</b>	<b>1,048</b>
Finance income	383	182	341	196
Finance costs	-558	-257	-539	-255
Share of profit of equity-accounted investees	77	86	49	73
<b>Consolidated profit/loss before tax</b>	<b>856</b>	<b>1,507</b>	<b>-346</b>	<b>1,062</b>



## NOTE 9. Segment reporting – geographical information

EUR '000	6M 2013	Q2 2013	6M 2012	Q2 2012
Estonia	74,049	47,756	62,226	40,129
Ukraine	50	3	152	52
Finland	1,447	657	636	280
Belarus	0	0	8	8
Inter-segment eliminations	-49	0	-102	-24
<b>Total revenue</b>	<b>75,497</b>	<b>48,416</b>	<b>62,920</b>	<b>40,445</b>

## NOTE 10. Cost of sales

EUR '000	6M 2013	6M 2012
Cost of materials, goods and services used	63,796	53,682
Personnel expenses	7,411	5,962
Depreciation and amortisation expense	929	978
Other expenses	88	110
<b>Total cost of sales</b>	<b>72,224</b>	<b>60,732</b>

## NOTE 11. Administrative expenses

EUR '000	6M 2013	6M 2012
Cost of materials, goods and services used	1,171	1,181
Personnel expenses	1,004	1,124
Depreciation and amortisation expense	82	144
Other expenses	70	55
<b>Total administrative expenses</b>	<b>2,327</b>	<b>2,504</b>

## NOTE 12. Other operating income and expenses

### Other operating income

EUR '000	6M 2013	6M 2012
Gain on sale of property, plant and equipment and intangible assets	140	263
Foreign exchange gain	66	39
Other income	0	64
<b>Total other operating income</b>	<b>206</b>	<b>366</b>

### Other operating expenses

EUR '000	6M 2013	6M 2012
Loss on disposal of property, plant and equipment and intangible assets	15	26
Foreign exchange loss	3	3
Net gain on recognition and reversal of impairment losses on receivables	-6	-4
Other expenses	47	32
<b>Total other operating expenses</b>	<b>59</b>	<b>57</b>

## NOTE 13. Finance income and costs

### Finance income

EUR '000	6M 2013	6M 2012
Interest income on loans provided	311	297
Foreign exchange gain	67	30
Other finance income	5	14
<b>Total finance income</b>	<b>383</b>	<b>341</b>



## Finance costs

EUR '000	6M 2013	6M 2012
Interest expense	532	504
Foreign exchange loss	0	29
Other finance costs	26	6
<b>Total finance costs</b>	<b>558</b>	<b>539</b>

## NOTE 14. Transactions with related parties

The Group considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions (assumes holding more than 20% of voting power). Related parties include:

- Nordecon AS's parent company AS Nordic Contractors and its shareholders;
- other companies of AS Nordic Contractors group;
- equity-accounted investees (associates and joint ventures) of Nordecon group;
- members of the board and council of Nordecon AS, their close family members and companies connected with them;
- individuals whose shareholding implies significant influence.

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

EUR '000	Q2 2013		Q2 2012	
Volume of transactions performed	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	195	0	152	2
Companies of AS Nordic Contractors group	7	882	14	2,018
Equity-accounted investees	306	13	199	4
Companies connected with a member of the council	22	0	35	0
<b>Total</b>	<b>530</b>	<b>895</b>	<b>400</b>	<b>2,024</b>

EUR '000	6M 2013		6M 2012	
Nature of transactions performed	Purchase	Sale	Purchase	Sale
Construction services	306	786	0	2,016
Lease and other services	224	109	400	8
<b>Total</b>	<b>530</b>	<b>895</b>	<b>400</b>	<b>2,024</b>

In the reporting period, the Group recognised interest income on loans to associates of 259 thousand euros (HY1 2012: 238 thousand euros) and on loans to joint ventures of 56 thousand euros (HY1 2012: 54 thousand euros).

### The Group's receivables from and liabilities to related parties at period-end

EUR '000	30 June 2013		31 December 2012	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	1	8	1	8
Companies of AS Nordic Contractors group	15	0	585	0
Associates - receivables	134	325	430	4
Associates – loans and interest	10,204	0	9,754	0
Joint ventures – loans and interest	1,603	0	1,888	0
<b>Total</b>	<b>11,957</b>	<b>333</b>	<b>12,658</b>	<b>12</b>

In the first half of 2013, the service fees of the members of the council of Nordecon AS amounted to 71 thousand euros and associated social security charges totalled 23 thousand euros (HY1 2012: 71 thousand euros and 23 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 101 thousand euros and associated social security charges totalled 33 thousand euros (HY1 2012: 147 thousand euros and 49 thousand euros respectively including the remuneration of the member of the board that was removed on 30 April 2012).



## NOTE 15. Contingent assets and liabilities

In its annual report for the year ended 31 December 2012 (note 37), Nordecon AS disclosed information according to which it was involved in a lawsuit with Aivar and Marika Noormets, non-controlling shareholders in Eurocon OÜ, in connection with its obligation to purchase their share in Eurocon OÜ after the financial results for 2009 had become clear. By the date of release of the annual report, Tallinn Circuit Court had issued a ruling by which it satisfied the claim filed by Aivar and Marika Noormets (538,520 euros plus late payment interest) for compensation of damages caused by Nordecon AS through failure to conclude a purchase and sale agreement for purchasing the share in Eurocon OÜ from Aivar and Marika Noormets after the signature of a relevant preliminary agreement. The court considered the price payable for the share equal to the damages caused to Aivar and Marika Noormets in connection with the non-conclusion of an agreement for the purchase and sale of the share in Eurocon OÜ and ordered that Nordecon AS pay the claimed amount to Aivar and Marika Noormets. At the same time, the ruling of the Circuit Court, which outlined the obligation to compensate the damages caused, stated that in essence Aivar and Marika Noormets have the obligation to transfer their share in Eurocon OÜ to Nordecon AS and Nordecon AS may demand transfer of the share. Nordecon AS contested the ruling by filing an appeal to the Supreme Court but on 20 May 2013 the Supreme Court refused to accept the appeal in cassation. As a result, the ruling of the Circuit Court, which resolved the dispute regarding Nordecon AS's obligation to Aivar and Marika Noormets, entered into force.

It was established in the said litigation that said the share in Eurocon OÜ for which Nordecon AS was ordered to pay to Aivar and Marika Noormets, had become practically worthless at the time when Aivar Noormets was responsible for managing and developing the entity's business. Since the conditions of the sale stated that the value of the share has to remain at least at the level of the minimum purchase price but at present Aivar and Marika Noormets do not have a share of such value (Aivar and Marika Noormets are unable to meet their obligation to Nordecon AS), Nordecon AS has filed a claim against Aivar and Marika Noormets that offsets Nordecon AS's pecuniary obligation to Aivar and Marika Noormets, which arose from the above ruling of the Circuit Court. Nordecon AS's claim and obligation stem from the same transaction. Accordingly, relevant items have been offset in the Group's financial statements. Nordecon AS's claim against Aivar and Marika Noormets and the enforceability of offsetting will be resolved through the pending lawsuit. In light of the duration of legal proceedings, the matter will probably not be ruled upon in the current year. Until the new dispute has been resolved, the above ruling of the Circuit Court is not enforceable and it cannot be enforced if the actions brought by Nordecon AS are resolved in favour of the Group.

Disclosure of significant information on the progress of the above dispute is in compliance with relevant laws and regulations and the purpose of the disclosures. Nordecon AS has chosen to disclose information on the dispute in its regularly published financial report. Taking into account the time taken by lawsuits, this should be adequate for ensuring consistent and uniform disclosure of information.



## Statements and signatures

### Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the second quarter and first six months of 2013 and confirms that:

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

Jaano Vink

Chairman of the Board

8 August 2013

Avo Ambur

Member of the Board

8 August 2013

Erkki Suurorg

Member of the Board

8 August 2013